

ECONOMIC REVIEW

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TRANSPORTATION

ECONOMIC REVIEW

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Correction

Due to a block maker's technical difficulty the cover of our October issue carried an obvious error in showing the clouds over the Indian Ocean left of Sri Lanka in colour perhaps suggesting that it was an island. This error is regretted.

NEXT ISSUE

- Bargaining for our rights at UNCTAD. An extensive discussion based on a Seminar held by the Sri Lanka Association for the Advancement of Science.

COVER

Cover artist G. S. Fernando is one of Sri Lanka's leading artists and cartoonists. His posters and paintings have repeatedly won him prizes and awards in islandwide competitions.

THE ECONOMIC REVIEW is intended to promote knowledge of and interest in the economy and economic development process by a many sided presentation of views & reportage, facts and debate.

THE ECONOMIC REVIEW is a community service project of the People's Bank. Its contents, however, are the result of editorial considerations only and do not necessarily reflect Bank policies or the official viewpoint. Signed feature articles also are the personal views of the authors and do not represent the institutions to which they are attached. Similar contributions as well as comments and viewpoints are welcome.

THE ECONOMIC REVIEW is published monthly and is available both on subscription and on direct sale.

DIARY OF EVENTS

Oct. 2 The Government announced an increase in the price of petroleum by 80 cts. a gallon and the price of kerosene by 48 cts. a gallon as a sequel to the OPEC hike in petroleum prices by US \$1.05 a barrel.

3 An IMF team, here to review the Sri Lanka economy in connection with a request for assistance from the Fund, began talks with government officials in Colombo.

The Bank of England increased its minimum lending rate from 11% to 12%.

6 Norway cut its Bank Rate from 5½% to 5% as part of a move towards a more expansive economy.

7 Three major credits from the World Bank Group totalling \$450 million are to be negotiated according to an announcement in New Delhi. These are \$200 million for industrial imports, \$100 million as general credit for improvement and expansion of fertilizer plants and \$150 million for power transmission.

8 The Indian Government announced extension of a Compensatory Support Scheme to help 30 items of exports including instant tea, packed tea, and tea bags. Exports of these products will now receive cash support.

All restrictions, imposed by emergency regulations in February 1974, governing the transport, possession and sale of paddy and rice in Sri Lanka were repealed through a Gazette notification signed by the President.

10 The Land Reform (Amendment) Bill was moved in the National State Assembly by the Minister of Agriculture and Lands. The effect of this Bill would be to nationalise all lands owned by public companies, both local and foreign, and vest these lands covering 415,000 acres of tea, rubber and coconut in the Land Reforms Commission.

13 Major oil producers and consumers agreed in Paris to hold a full scale ministerial conference in Paris on December 16 and 17 to deal with energy, raw materials and development problems and the financial questions connected with these three fields.

15 Papua New Guinea was unanimously admitted as the 142nd member of the United Nations by the UN General Assembly.

17 Nearly 2,500 government servants were deployed all over the island on a stock taking and verification of the assets of all public company owned estates vested in the Land Reforms Commission immediately after the Speaker gave the new legislation final legal status when he put his signature to the Land Reform (Amendment) Bill.

Asian members of the United Nations nominated Sri Lanka's Ambassador to the UN Mr. Shirley Amarasinghe for the Presidency of next year's UN General Assembly. The Presidency is rotated among regional groups and it is Asia's turn in 1976. Group endorsement is generally tantamount to election.

20 The Soviet Union will buy 30 million tons of U.S. wheat and corn over a five-year period, while the United States will be entitled to 10 million tons per year of Soviet oil over the same period, according to a White House announcement.

21 About 60 countries formally approved the draft of a new international cocoa pact in Geneva.

28 The Draft Estimates of Revenue and Expenditure, for the financial year ending December 1976, which were presented in the National State Assembly by the Minister of Finance showed an excess of Rs. 2,495 million in expenditure. The estimated total expenditure is Rs. 8,123 million and revenue Rs. 5,628 million.

INDIA'S OIL EXPLORATION DIARY

Throughout October optimistic reports were received from India on her progress in oil exploration.

Oct.

2 - Oil was struck, at a depth of 1,416 metres, in the sixth well of the Bombay High area by the "Haakon Magnus", a Norwegian semi-submersible rig operating in the central part of the Bombay High structure. So far 200 million tonnes of oil and gas reserves have been established at Bombay High.

9 - Oil has been struck at a depth of 2,170 metres in the Bengal basin—the second off-shore oil strike in India. The American Carlsberg group has been awarded the exploration contract in the Bengal basin. The first well off the Orissa-Bengal coast was spudded on September 22 and the oil-strike came within 18 days.

23 India's Petroleum Ministry and the Oil and Natural Gas Commission signed an agreement in New Delhi with the Asmera group of Canada for oil exploration and production in the Cauvery basin on a production-sharing basis with a limitation on profits.

25 - Oil was struck again in India in the well at Kharsangh in Aruhachal Pradesh, further strengthening the country's hope of achieving early self-sufficiency in oil. Good deposits were discovered, at a depth of about 2,850 metres, in the well being drilled by the Oil India Limited, a joint enterprise of the Government of India and the Burmah Oil Company.

26 - The first well in the Kutch off-shore area, farmed out for oil exploration to the U.S. company, Reading and Bates, was spudded.



TRANSPORTATION

An Overview

The immediate purpose of transport is to move physically, people and goods. Goods include food, industrial raw material, intermediate products and industrial finished goods. But why do we want to move people and goods?

The deeper purpose of transport is to enable specialisation of factorial functions. Goods are found, grown, processed or manufactured in one place and consumed in another. For this end the goods must move and, as one of the factors of production, men must move from where they live to where they take part in the processes of production.

A simple society, being largely self-sufficient needs little transport service. A complex society needs much transport and adds in the end its own desire to travel either for sheer pleasure or for the pleasure of something at the other end of the ride.

It is evident therefore that transport and travel can be minimised both by restraint in the use of goods that must be moved, and by the planning of land-use upon a sort of "methods pattern" so that people and goods need the least moving within the web of social development.

Alternatives to Transport. A further look at the objects of transportation show that transport services are never overall monopolies. There are two main competitors to transport: they are social self-dependence and electronic communication.

The first concept arises from the basic objects. Obviously if factories and homes are side by side, personal transport is minimised. If people live on the fields they till, and they grow most of their needs of food, clothing and shelter, they need neither to move themselves or much of goods.

Likewise culturally self-satisfied people do not need to travel to see theatre or pagentry or even go on pilgrimages. Thus self-feeding, handlooms, stay-at-home attitudes, preference for neighbourhood society, books and home games all compete with transport.

Secondly, electronic communication competes with transport. Is the conveyance of speech (by radio and telephone) the conveyance of pictures (by television, videophone etc.) the conveyance of data (through computer terminals) to be regarded as "transport" of ideas? If it is, then still it competes with transport in

the physical sense because a radio listener may not need a newspaper which would otherwise have to be transported (not to speak of the raw materials that went into its production). Likewise a TV saturated viewer need not travel to a cinema.

Nature of Transport

Transport generally implies movement. The movement itself is the transport. But movement requires tools and energy. Energy can be got from man or animal or from wind or river flow or by artificial means.

Tools are twofold. A container and a track. Of course the transport of some things (a jackfruit or a plank of timber for example) can be done without a container. And a man can walk across meadows, rocks, or swamps and can even swim across water. Yet a planned or defined track is a prerequisite for most forms of transport.

Means of Transport

The means are precisely the tools (track and container) and energy. Track consists of navigable water (ocean, lake, river, canal) roads, railways, cableways and flyable airspace, for all of which special terminals or interfaces are usually needed.

Containers include boxes and pallets and also vehicles of every description from bicycle to train to ocean-going ships. Vehicles subdivide into haulers (locomotives, tractors, mechanical horses) and trailers, yet the distinction between these merge more often than not.

Energy is sometimes there for us to use like gravity (used for wire shoots as well as down-river riding) and wind. Animals and man can tow or push burdens. Other energy comes from the conversion of heat into commercial fuels such as coal, oil, natural gas and from electricity, which itself may be generated from one or other of the primary fossil fuels.

Chief Transport Modes

The chief distinguishable modes of transport are water, road, rail and air. Of these water is the easiest, and it has the characteristics of slow speed, and low energy requirement. In fact the easiest transportation task is that of towing a barge through water. Water transport is cheapest where the track was provided by geological history, such as ocean, river and lake. Where man has made canals, the first cost is often high, but once built it remains almost for ever at low cost except where it is polluted or neglected and may need renovation.

Railways are the second-most conservers of energy. They were devised (some say first by the Romans, others quote Britain and Germany in the late 1700's and early 1800's), to make the horse's task easier. The horse could multiply his work on a well laid plateway. This economy continues to be of use though propulsion methods have developed to coal-steam; oil-steam; diesel; electric and gas turbines. Like canals, railways have considerable first cost but require far more maintenance and regulation. Their second characteristic is that they are cheap on labour (one train crew can move 10,000 tons or 2,000 people) and on space. The throughput of goods or people over an intensively used railway is very high.

Roads, are ancient but highways with durable foundations, smooth surfaces and good run-off drainage

are much more recent. Their characteristic is comparatively cheap first-cost, with the capability of gradual up-grading as money allows, and with multifaceted availability. A road can be used, subject only to special legal or physical impediments, by pedestrians, cycles, carts, lorries, cars, buses and even elephants. But roads have a limitation. In dense car-populated countries, the attempts to make them wide and fluent have run against the finite limit of how much of a city's space can be devoted to movement and how much should remain for work and leisure. Highways, however, have the great asset of extreme accessibility.

Airspace is much like rivers in that it is there, but it is increasingly becoming like highways in that its regulatable navigability is limited. It is good for transport of goods and people only so long as a limited number use it. Its other characteristics are high energy cost (gravity has to be defeated to start any journey) and far-distanced stopping places.

Newer track forms are emerging, notably pipelines and cryogenic electric transmission cables. Both take over the need to transport fossil fuel by road or rail. Things like hover tracks, magnetic levitation and slung cabinways are also under exotic development, but even if they do become viable they are characterised as "guide-ways" and are therefore akin to railways or cableways.

Problem of Space

The constraints of space have been mentioned in connection with roads and air. It also arises sometimes at terminals, stations, harbours and airports. The movement and the terminal act of interchange that goes with it are all part of transport and all require space.

Societies that have become dependent on automobiles and air planes have almost reached the limits of available space. But even in under-developed countries space on land is a scarce resource, especially developed track space (roads, canals, railways) and especially space in cities.

The problem is already acute in developed countries. Many professional transporters, economists, town planners and others are expressing increasing concern for rationing urban space and giving priority to those who use it sparingly and cleanly. Cities are restricting the use of motor cars. Singapore has done this with heavy price tags for using central streets in the rush period. And even the head of New York local transportation has taken his plea to an international conference this year for prohibition (of automobiles) "that would free ample space for bus services" wherever there is public transport available and for barring such vehicles even from inter-city use where public transport exists.

Hence the modern town planner and tariffic manager, whether in developed or under-developed countries, is no longer seeking to widen roads and improve traffic flows, he is now seeking to hamper traffic flow but to give priority to public transport which uses road space so much more economically.

Problem of Energy

Urban space and laid tracks are a scarce resource almost anywhere. Energy is equally scarce in all except OPEC countries, and on a world footing, oil is thought to be running out within the next 30-60 years. In Sri Lanka, certainly, energy is a scarce resource, but so is it in U.S.A., so much so, that some leaders have almost undisguisedly welcomed OPEC price increases as bringing in a sense of reality. For example the same U.S. transit leader, (who is also Chairman of Rockefeller's Committee on Critical Choices for America), said at an international conference in May 1975:

"The events of the past year and one half have placed the future situation in a realistic perspective".

Energy works this way. What you require to move a ton of goods by road, will move four times that tonnage by rail or by water.

Where passengers are concerned the ratio in Sri Lanka is approximately that a private car rider requires 10 times as much energy as a bus or train rider.

Energy has another dimension. When supplied by thermal generation of electricity it may conserve fossil-fuel marginally, as against the direct use of oil. But where supplied by hydro, or nuclear generated electricity, there is no drawing on oil or coal at all, and very little noise or air pollution to boot. But how can electricity be used for transport? Only by using railways, tramways and trolley buses for passenger transport and railways, canals and cableways for goods. Transport of goods by lorries on roads, and transport of people by cars on roads do not figure in this dimension and are not likely to figure significantly because all the enthusiasm about new types of batteries and fuel cells has died out at least for the time being.

Thus energy conservation needs correct choices both in the mode of transport and in the form of energy.

Problem of Vested Interests

It is now generally recognised, and is increasingly discussed, though rarely put down in black and white, that a powerful conglomerate of vested interests has, whether deliberately or otherwise, distorted the development of transport in several parts of the world, particularly the U.S.A. and Western Europe.

The chief big interests with a common interest in this matter are usually labelled as the Oil, Automobile and Tyre interests. These interests are supported by various ancillary interests in spare parts components, and finish (e.g. paint) manufacturers, and in the vast distributive trades handling motor supplies at wholesale and retail levels. To these interests are further added the highway construction supply and contract industries and the trucking, taxi and rent-a-car businesses. These collectively are known as the "highway lobby".

But the highway lobby does not end with profit organisations. It includes professionals and consumers.

Professionals who support the lobby are the highway designers, planners and engineers, the traffic managers and regulators, and even the town planners. All of these, tend to be dedicated professional men pursuing their talents and skills in

attempting to solve the traffic or congestion problem in the interest, as they see it, of society. They see the symptoms of a problem and feel challenged to use their expertise to solve it, and even bring in the transport economists who will justify economic expenditure to build 6 or 8 lane motorways on the grounds that the prospective users will save their valuable time. Some new professionals are indeed emerging even in the World Bank and OECD, but the inertia against changing the trend is very strong indeed.

That British architects held a seminar at Durham University devoted to the new trend for restraint, and that OECD itself had a conference of case studies (including Singapore) on restraining the car, pedestrianising city centres, and even planning deliberate congestion to discourage cars, caused scarcely a ripple in world news or in Sri Lanka circles.

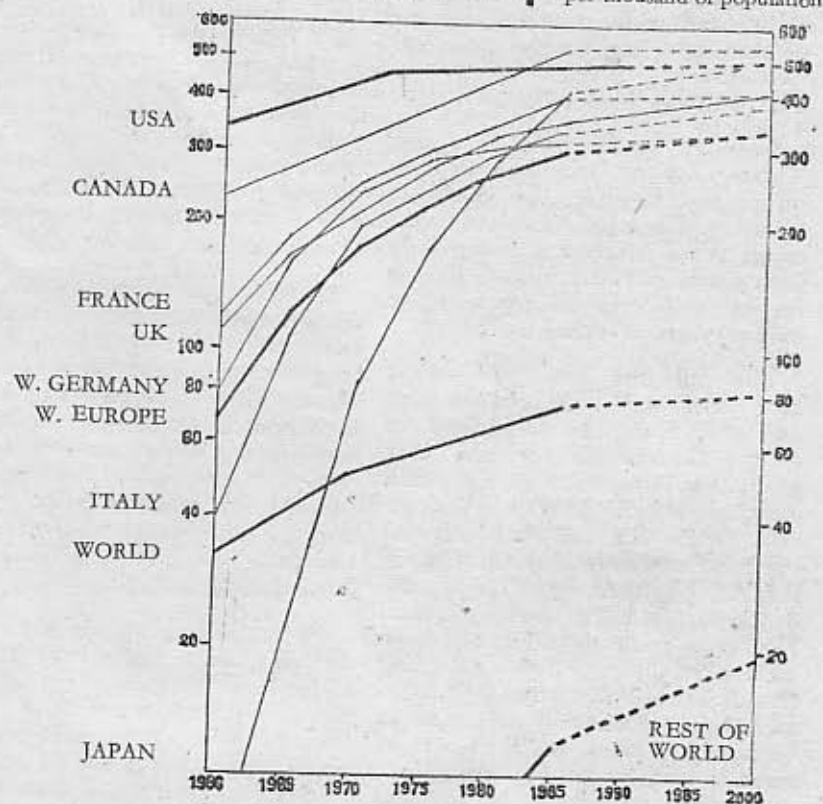
And then there are the consumers. In USA 500 cars per 1,000 in the population. In Europe 200-400.

In Singapore 80. In Sri Lanka 8. Even 8 can cause a traffic jam and hold up public buses. Even 8 consume a good proportion of the public highway for free parking; but whether 8 or 80 or 800; consumers of motorism like the article. It is an extension of home, a large handbag, a highly convenient means of personal mobility, even a liberator from restraints. As long as this consumer thinks that road development will allow him to enjoy this freedom the longer will he support expensive road programs and defer the real answer.

Wherever he be, the decision-maker is one of these consumers. If the number of consumers be small (as in Sri Lanka) the elite deciders and the automobile consumers are one and the same group. What will they decide given any plausible alternative?

Thus the road lobby is powerful even in Sri Lanka which has no auto industry, only ancillary interests, but has indeed professionals and consumers with powerful leverage. Is it possible

Fig. 1 Car Ownership per thousand of population



"Growth in car ownership tapers off around 500 cars per thousand population. Japan was a late starter with a very rapid rise. Countries outside OECD hardly count."

in this context for correct decisions to be made in favour of the present and the future, for meeting shortages of both space and energy resources?

The Railway in Sri Lanka

Generally speaking the Sri Lanka Railway has no corporate or self-image and therefore no corporate ambition. Some believe this to be the result of its status as a government department. Others hold it due to leadership factors during most of its 100 years of existence.

The full line extent of nearly 1000 miles, was built between 1858 and 1928. Since then except for links to the Cement factory and Clay grounds at Puttalam, there have been only retractions (Ragala, Yatiyantota, Opanayake and Puttalam) and one re-surrection (Puttalam). Electrification, proposed by Wimalasurendera in 1918, is still to receive sanction. Not even track doubling has been undertaken since 1930, only a singling (Rambukkana-Polgahawela). Thus there has been virtually no expansion for nearly 50 years and the length of track is low, by world comparisons in relation to population and land

area, although the terrain generally favours rail construction.

On the other hand there has been, at least up to 1970, considerable development by way of intensification of exploitation of the track and rolling stock. Two chief aids to intensifications have been the CTC signalling system and dieselisation of motive power, though some say that neither has been fully exploited.

The table below of comparative performance shows that Sri Lanka does extremely well in the ratio of loaded wagon to empty wagon movements and the ratio of average wagon load to wagon capacity. Both are important indices of productivity. In nearly all the other measures, Sri Lanka shows poorly even against Portugal and Greece whose railways are among the least sophisticated and developed in Europe.

Of particular disappointment is the declining share the railway has got of the country's goods needing transportation as seen in the table above. Perhaps with state take-over of plantations, the share of tea and rubber may pick up at least to the

full potential of estates within 10 miles of railway stations.

Table 2. Railway's Share of Nation's Tonnage ('000 tons) of selected goods

Goods	1955		1969		1974	
	Nation	Rail	Nation	Rail	Nation	Rail
Tea	167	92	225	33	201	32
Rubber	92	17	150	1	134	1
Plumbago	9	2	12	1	10	—
Oil	748	181	1753	301	1523	360
Cement	78	48	391	148	466	94
Sugar	187	20	311	9	105	13
Salt	40	32	117	15	113	8
Fertilizer	187	101	291	113	—	88
Flour	—	—	458	227	448	221
Rice	—	—	1245	316	1226	277
Coconut	—	—	—	21	—	10
			1616	1569	1104	

Even on diesel-oil, freight trains are held to be 3 to 4 times more efficient in use of energy than road vehicles. With electrification the energy gains are much greater because most of Sri Lanka's electric power comes and will come from hydro source. Even with thermal electricity, fossil fuel is more efficiently converted to electricity at a Central thermal station such as Kelanitissa than on board a diesel electric locomotive. If Kurunegala-Negombo-Kalutara were electrified there could be a saving, granted

Table 1. TRAIN STATISTICS OF SRI LANKA AND SOME SELECTED COUNTRIES

SRI LANKA (in miles)				(in millions)									
Year	Mid year population	Land area	STOCK			Train miles			PASSENGERS		GOODS		
			Passenger	Goods	Loco	Passenger	Goods	Total	Million passenger passengers miles	Million tons	Million tons mls	Gross ton	
1963	...	10.6	25	1,022	4,181	355	5.2	2.0	7.3	69	1,342	1.79	200
1964	...	10.9	"	1,015	4,048	355	5.1	2.1	7.3	73	1,453	1.87	218
1965	...	11.2	"	1,055	4,095	355	5.6	2.0	7.7	74	1,498	1.56	196
1966	...	11.4	"	1,040	4,208	357	5.8	2.1	8.0	75	1,537	1.79	212
1967	...	11.7	"	1,013	4,129	355	5.8	2.2	8.0	78	1,585	1.09	212
1968	...	12.0	"	1,004	4,095	344	5.8	2.3	8.1	82	1,678	1.82	221
1969	...	12.3	"	996	4,171	393	5.6	2.3	8.1	88	1,781	1.79	220
1970	...	12.5	"	991	4,150	340	5.8	2.6	6.5	86	1,825	1.70	228
1971	...	12.8	"	984	4,117	332	4.7	2.0	6.9	83	1,734	1.76	207
1972	...	13.0	"	992	4,117	332	5.3	2.3	7.8	85	1,907	1.77	211
1973	...	13.2	"	700	4,081	279	5.4	2.3	8.0	89	2,051	1.89	204
1974	...	13.4	"	710	4,081	289	4.5	2.2	6.9	69	1,726	2.0	197

SELECTED COUNTRIES (Kilometres) 1973

Sri Lanka	...	13.2	25	700	4,081	279	8.6	3.7	12.8	89	2,762	2.0	315	
Spain	...	34.4	194	3,237	44,060	1,802	84.0	46.9	132.5	193	15,640	37.6	11,561	48,939
Portugal	...	9.8	35	1,002	7,812	575	23.8	5.6	30.8	117	3,225	5.1	859	7,289
Norway...	...	3.9	125	1,002	9,411	409	21.7	9.4	31.4	30	1,640	31.7	2,843	
Sweden	...	8.1	172	2,328	51,188	1,206	55.8	43.4	99.9	68	4,500	65.2	7,036	46,529
Rumania	...	20.7	92	—	—	—	66.1	82.2	148.7	297	17,264	205.9	51,243	128,914
Hungary	...	10.4	36	—	—	—	63.5	43.3	107.6	323	12,611	121.9	21,315	63,067
Taiwan	...	15.1	14	1,212	7,767	413	26.7	9.1	36.9	141	7,940	17.0	2,780	14,496
Greece	...	8.9	51	538	9,495	424	—	—	—	19	1,615	3.3	798	4,286

Source: Sri Lanka figures G.M.R.'s Reports. Other figures UIC International Railway Statistics Year 1973.

hydro power, of perhaps 3½ of the 11 million gallons oil used by the railway yearly. This would be approximately 100,000 barrels, which at \$11 amounts to Rs. 12 million per annum, or about 3% of the cost of such electrification.

For passenger service, electrification has further advantages especially with regard to acceleration out of station stops. This means not only a faster journey for the passenger but also better mileage output from the rolling stock and crews by reason of quicker turn-round.

With regard to both goods and passenger traffic, electrification has the further advantage that electric equipment (locomotive and rail-cars, or powered multiple unit train sets) usually has twice the life span of equivalent diesel stock.

Apart from electrification and capturing plantation produce there is scope for considerable development of the railway as is indicated below.

- (a) **Extensions:**
 Matara-Devundara
 Puttalam-Anuradhapura
 Matale-Nalanda
 Kahawatta-Embilipitiya
 Batticaloa-Akkaraipattu
 Jaffna-Point Pedro
- (b) **Restoration:**
 Yatiyantota
 Ragala
 Opanayaka
- (c) **Multiple tracing:**
 3 tracks Fort-Ragama
 2 tracks Panadura Bridge
 2 tracks Polgahawela-Kurane-gala
 2 tracks Jacla-Negombo
- (d) **Containerisation**
- (e) **Special tea handling depots:**
 Bloemendhal
 Trincomalee
- (f) **Special rubber handling depots:**
 Murwal
 Galle

On a more visible, but less economically important scale, there is scope for opening more passenger stations (e.g. Bambalapitiya Flats, and Urugodawatte), for exploiting the Mutwal and Kolonnawa lines for passengers, and for re-arranging significant railway stations to become joint passenger travel stations with the C.T.B.

Canals in Sri Lanka

The canals systems stretching from Puttalam to the Kaluganga and isolated sections elsewhere have largely fallen into disuse by neglect, partly because those in charge failed to see

their value. Some say vested interests hastened their demise, because right up to ten years ago pada boats continued, until silt in the canal and crumbling of the tow path prevented it, to carry copra from Chilaw to Colombo.

The new revival is certainly welcome because canals have such enormous advantages in energy conservation, labour intensity and environmental compatibility and even as an aid to urban storm-water drainage. But those who are promoting the canals will have to remain vigilant because, if the boats are made by village craftsmen and the SEC, and if most haulage is by man-power, there will be no vested interest to defend water transport, and the re-de-silted canals can fall into disuse again.

The comparative advantage of canals for bulk or heavy goods (including iron and steel, cement, salt, copra, fibre) as much as their disadvantage for perishable and high value goods which must move fast, must be accepted by transport competitors such as the Railway, the C.T.B., the Highways Department, even with realisation that the off-loading of some goods from road to canal will postpone the need for some highway improvements.

When Puttalam-Colombo is reopened there is no reason why the Cement and Salt Corporations cannot send their goods to Colombo by water, and meanwhile state coconut oil mills can buy copra on the canal bank.

Thereafter there is no reason why the proposed Kaduwela-Oruwala canal should not be dug for steel transport, canals restored southwards to the Bentara ganga, Ginganga transport of sugar and bricks revitalised and other schemes undertaken.

Trucks, Lorries and Vans in Sri Lanka

There is very little published data about the work done by goods road vehicles in Sri Lanka. Table 3 shows a steady increase from 27,000 vehicles registered in 1965 to 34,000 in 1971. Thereafter registration has been stagnant, which implies that retirements have been more or less evenly replaced by new imports. There is no certainty however, as to how many registered vehicles were actually in use.

A different indicator of the significance of lorry and van transport is given in Table 2 which shows that the railway has lost a lot of its potential haulage business. Typically the railway carried 92,000 tons of tea and 17,000 tons rubber in 1955, but only 33,000 tons tea and 1,000 tons rubber by 1969. The 1974 position is a little lower, notwithstanding that the state took control of a significant plantation acreage and could have directed part of the captured produce to the railway.

The implication is that lorries have captured the business which the railway has lost. The Report of the Transport Commission, Sessional Paper XXIII of 1967 finds that rail tonnage remained static while lorries took up the entire tonnage increment reflecting a 21% increase in GDP from 1959 to 1964.

The same Commission estimated certain data about the lorry fleet.

Registration 1965			
Colombo	...	...	12,000
Elsewhere	...	...	14,000
Total	...	...	26,000

Payload 1966			
2½ tons and over	...	...	13,000
Lower (mostly 1½ tons or under)	...	...	15,000
Total	...	...	28,000

Fleet Ownerships			
Government departments	...	...	2,700
Others with 10 or more	...	...	2,600
Total	...	...	5,300

While complaining about lack of data in respect of the whole road haulage activity, the Commission made the following assessments:—

Million tons for Transport 1965			
Agriculture and imports	...	...	3.60
Export	...	...	1.00 4.60

Increment to 1971			
25% of 1965	...	...	1.15
Industrial raw materials	...	...	1.2
Generated increases	...	...	2.0 4.35
Million tons for transport in 1971	...	...	8.05

Road Haulage			
		M.Tons	Lorries
1965	...	4.6	13,000
Increment	...	2.0	6,500
1971	...	6.6	19,500

However, the Commission made no study at all of ton-miles, which is essential to an understanding of the quantity of haulage and of the fleet requirements. The figures indicate that in 1965 lorries of payload 2½ tons and over carried 350 tons each per annum and the new 6,500 lorries recommended for import would each carry 300 tons per annum. Assuming an average haul of 100 miles and average capacity of 3 tons, the 1965 fleet worked an average of only 40 miles per lorry per working day and the new lorries were to be worth only 33 miles per day.

Table 4 shows operated buses, which can only work during the "traffic day", (i.e. at times of the day when there are passengers) run about 150 miles per day. Even allowing one in three buses at depot for repair, this is 100 miles per total bus per day. For a lorry to work only 30 odd miles per day, with less restriction on useful working hours, shows gross under-utilisation of scarce capital equipment.

This emphasises that whereas meticulous cost benefit studies are imposed before investment in railway infrastructure or rolling stock, or in electrification, investment in lorries is recommended and proceeds without serious analysis.

Incidentally the same Commission recommended the abandonment of canals and closing the KV railway beyond Homagama. The analytical approach to road transport, examining the resource cost of transport, the

possibilities of improving utilisation, and comparison with rail and water mode does not appear to have still emerged, and is badly needed.

Until such analysed data is available it is necessary to consider road transport on first principles. The nature of the vehicles and the track is such that the cost in terms of energy, vehicle-wear and track wear is necessarily higher than rail or water, but allowance must be given in appropriate cases for circuitry of the total trip via rail or water.

	1961	1973	1974
Buses operated ...	2,500	4,600	4,300
Million Miles			
By buses ...	120	250	235
By passengers ...	3,400	9,200	7,900

Growth upto 1973 must reflect, to some extent, growth in economic activity as well as growth in bus transport supply. In the case of bus transport it is common in developing countries that suppressed or latent demand is tapped by an increase in the service provided.

Table 3 VEHICLE REGISTRATIONS (thousands)

Year	Cars and Taxis	Motor cycles	Lorries and Vans	Omnibuses	Other vehicles	Total
1965 ...	82	18	27	8	13	149
1966 ...	83	18	28	8	15	152
1967 ...	84	18	29	9	17	157
1968 ...	85	18	29	9	20	161
1969 ...	87	19	31	10	22	169
1970 ...	88	20	33	10	26	177
1971 ...	88	21	34	11	26	180
1972 ...	89	22	34	12	27	184
1973 ...	90	22	34	12	30	188
1974 ...	91	23	34	13	31	192

It is also necessary to consider that it is no longer suitable for private enterprise, state corporation, or government department to choose its transport mode solely by reference to its own convenience or the profit or loss shown by its own book-keeping process.

Buses in Sri Lanka

Table 4 shows considerable growth from 1961 to 1973 followed by a drop in 1974:—

The drop in 1974 may be attributed to elasticity of demand following stiff fare increases in 1974, themselves consequent upon general inflation as well as the direct and indirect effects of the oil price increase from \$3 to \$10 per barrel.

Table 4 also shows a decline in the last few years in daily bus utilisation from a peak of 157 miles per operated bus per day in 1967-1969 to about 150 miles per bus per day. This may reflect partly a curtailment of the traffic day (i.e. less late night services) and of off-peak services, and partly a lowering of scheduling and operating efficiencies.

Whereas in many countries, including even USA and Western Europe, the energy crisis resulted in an increased emphasis on the need to improve the quality and (by subsidy) keep down the price of public transport, a different philosophy seems to have emerged in Sri Lanka.

For example a minimum fare of /20 seems deliberately intended to inhibit short-rides, though at the time when short rides are not in any case inhibited by queues or crowding, empty capacity is available at practically no cost. Another example is

Table 4 C.T.B. STATISTICS

Year	Million Miles		Miles per operated bus p. day	Buses operated	Rides per head of population
	Bus	Passenger			
1961 ...	121	3,412	133	2,489	61
1962 ...	123	3,711	134	2,511	64
1963 ...	119	3,782	134	2,442	63
1964 ...	138	4,525	140	2,708	73
1965 ...	160	5,040	145	3,019	80
1966 ...	184	5,734	151	3,342	90
1967 ...	209	6,319	157	3,642	98
1968 ...	213	6,966	157	3,699	105
1969 ...	221	7,267	157	3,861	107
1970 ...	237	7,445	153	4,249	108
1971 ...	241	7,419	147	4,494	105
1972 ...	270	8,698	154	4,799	107
1973 ...	251	9,213	150	4,590	107
1974 ...	235	7,905	149	4,302	93

the announced strategy of reducing the number of bus-stops, partly to discourage travel and partly to "conserve" brake linings, clutch plates etc. As far as energy is concerned, Figure 4 shows graphically the following relationship:—

Table 5

FUEL CONSUMPTION			
	Mil. Pmg. miles	Mil. gals. oil	Pmg. miles per gal.
Bus ...	7,900	22½	350
Train ...	1,700	5½	310
Public ...	9,600	28	340
Car ...	700	28	25
Total	10,300	56	185

It would not be unreasonable to suppose that other costs in scarce resources are proportionate, so that if travel is to be discouraged in order to conserve foreign exchange or any other resources, the primary discouragement should be placed upon car travel and not on bus travel.

Moreover, if by apt improvement in the quality of bus services and by rationalising the bus fare structure, it is possible to lure half of the car travel into buses there would be a saving of no less than 13 million gallons of petrol worth say £20 million (not to speak of personal savings to the travellers) as well as parallel saving in wear and tear.

Quality of bus service includes very importantly the convenience, accessibility and walking distance to bus stops, the frequency of service, the availability of service at off-peak and late evening, as well as comfort, short overall journey time, and less psychological frustrations in travel. In this context it should never be forgotten that all bus travel starts on foot and ends on foot.

Automobiles in Sri Lanka

The position of automobiles has already been discussed as a comparison measure in earlier paragraphs. Table 3 shows that motor cars on the register have increased from 82,000 in 1965 to 91,000 in 1974.

Petrol consumption in Table 6 shows the use by automobiles has declined from 38 million gallons in 1973 to 28 million gallons in 1974. This gives a 27% drop in

consumption, (and therefore of car mileage) against a 100% price increase. This is a considerable elasticity.

Table 6

TRANSPORTATION OIL SALES (in Millions Gallons)		
	Petrol	Auto diesel
1964 ...	42.2	39.6
1965 ...	41.5	42.8
1966 ...	41.0	47.2
1967 ...	41.2	53.2
1968 ...	42.3	55.9
1969 ...	43.6	60.4
1970 ...	43.7	65.3
1971 ...	40.5	73.4
1972 ...	38.7	72.8
1973 ...	38.3	72.8
1974 ...	27.8	67.1

Source: Petroleum Corporation

Car registration has increased slightly more slowly than the population, so that the car density has declined from a maximum of 10 per thousand in the middle fifties to 7½ per thousand in 1974. This compares typically with:—

Table 7

CAR DENSITY (per 1000 population)		
	1970 actual	1975 estimate
U.S.A. ...	434	456
Canada ...	313	369
France ...	244	294
Britain ...	211	270
Japan ...	85	174
Singapore ...	*	64
Greece ...	26	46
Sri Lanka ...	7	8

*not available

From 1970 onwards, when cities were increasingly unable to manage traffic congestion (despite billions spent on fancy highway and parking schemes) air pollution and noise caused by private cars, and from 1972 when the energy crisis was already foreseen (as a quantity, if not as a price problem), organisations ranging from OECD, to Nelson Rockefeller's Commission on Critical Choice for Americans, to the International Union of Public Transport, to the Royal Institute of British Architects have been pleading for restraints on the use of motor cars especially in cities. They are even getting responses to their pleas and many cities are taking firm steps including—

- priority for buses at traffic signals.
- one way for cars but not for buses.

- down-town car licences (Singapore charges \$3 per diem).
- legal limits to private parking places in new buildings.
- pedestrian-only and pedestrian plus-tram-only streets in centres.
- no parking on bus and tram routes.
- thinning roads and bulging (the opposite of rounding) corners.
- deliberate, planned congestion.

In fact some responsible spokesmen in USA have gone so far as to welcome OPEC price increases as being a blessing because of their assistance to the advocates of car restraint.

Possibly because Sri Lanka is considered by the relevant authorities to be a well-to-do nation, none of these messages seem to have reached Colombo.

Highways in Sri Lanka

The discussion on lorries, buses and cars in the last three paragraphs has necessarily touched upon the highway which they all share as their track with such commercial energy conservers as cyclists, bullock carts and pedestrians, as well as with children and dogs and other dalliers and with miscellaneous goods for which the highway is often a free godown.

The Director of Highways Report for 1969/70 (issued—August 73) refers to 13,225 miles of road under its jurisdiction of which 11,745 miles were in motorable condition. The Wilbur Smith Report gives the following breakdown of PWD roads in 1962.

Width	Miles	%
8' - 15'	9179	89
16' - 23'	1030	10
24'	71	1
	10280	100

This excludes Municipal Roads of which Colombo had 155 miles including 54 miles in Class 1.

Highways have tended to develop in Sri Lanka at best upon the subjective judgements of district highway engineers and at worst upon whims of political decision makers.

Where cost/benefit, or viability studies have been done prior to investment (or sometimes as post-facto justifications) they have often proceeded on two bases, one of which is invalid ab initio and the other unproved. The bases are:—

- (a) measurement of traffic volume by vehicles instead of content (people and goods).
- (b) giving value to the time saved by people expected to travel faster after the improvement.

With regard to volume of traffic the only comprehensive study in Sri Lanka was done in 1962 by Wilbur Smith Associates whose all-island traffic flow maps are based on vehicles. In a special section the Wilbur Smith Report gives the average bus load as 30 passengers compared with 2½ occupants per car. Thus in function a bus is worth 12 cars although in terms of passenger per dynamic road space occupation or congestion, it may be worth 6 cars. Yet the flow maps equate one car to one bus and one lorry; and bicycles which constituted 42% of the all island "daily" count do not figure in the flows.

With regard to the value of time, several authorities now challenge the formulae (adopted for the British MI) which assume that a man will use beneficially the time that a better road will save him, and assume that the time-saving will not be cancelled out in the longer term by new traffic attracted by the improvement.

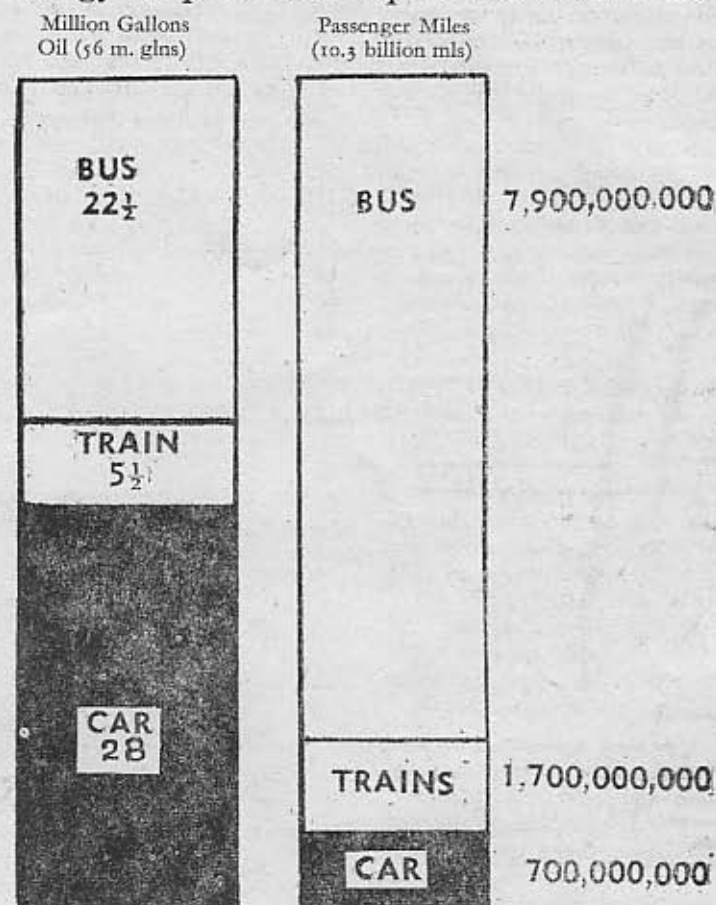
It would be interesting to know whether the Katunayake-Colombo, Galle-Face-Centre and Duplication Road projects, for which considerable resources have been allocated, could stand up to a cost/benefit study which counted persons and goods instead of vehicles and which omitted values for personal time savings and which took account of parallel under-exploited transportation tracks such as the railways and canal.

A conclusion is not unreasonable that the decisions to construct, widen or improve highway and bridges are

The importance of good transport to a country is so vital that it is now accepted practically as an axiomatic truth that "every country pays for the transport it has not got".

'Transport Conditions in Ceylon'
Donald Rutnam Report, 1944.

Fig. 2
Energy for personal transport in Sri Lanka 1974



made upon the subjective view of symptoms (bridge queues, traffic congestion) and not upon a study of the causes of these symptoms and possible remedies thereto.

Towards a Solution in Sri Lanka

The first step towards a solution of present transport problems, and visualising a policy for the future most surely depend upon:—

- (a) identification of the real problems (in terms of people and goods).
- (b) collection of reliable data.
- (c) a knowledge of the available technologies.

Such study requires a synthesis of the skills of town-planners, transport technologists, resource lexicographers, statisticians and economists, and thereafter joint planning in the light of the prevailing social and political philosophies.

From the time the Club of Rome published its work on "Finite Re-

sources" most serious economic studies have considered the conservation and efficient utilisation of scarce resources to be the paramount guide for development. This applies no less to transport than to any other field. It could therefore be suggested that the future of transport in Sri Lanka should be based upon a policy with at least some of the following guidelines, wherever there are no compelling reasons to depart from them:—

- (a) The location of activities to minimise physical transport.
- (b) The use where feasible of animal power, man-power and electric power in that order as propulsive energy.
- (c) The use where feasible (and where intensity of traffic volume justifies installation and maintenance) of canals and railways in preference to roads.
- (d) The use of public carriers in preference to private carriers on roads.

- (e) The allocation of highway development funds to rural roads, and to improving foundations for roads needed by heavy vehicles, in preference to widening roads and bridges needed to cope with private vehicles.

WORLD RAILWAY TRENDS

The directions of world railway development, as evidenced by decision-making in the last few years are mainly construction of new lines in socialist countries, substantial electrification all over the world, containerisation and unit-trains for cargo in developed countries, sophisticated metro lines in metropolitan conurbations, and railway bankruptcy in U.S.A.

Starting with the last, U.S.A. the fortress of private enterprise, is in dilemma because most of its privately owned railroads in the N.E., and even one in the mid-west, have entered bankruptcy. Why? And passenger carrying except for commuter and subway trains would have been a thing of the past had Congress not set up "AMTRAK" to take over and operate, at a loss, a few inter-city trains. Why? And now Congress is considering CONRAIL to operate all or most freight trains in the North East. The answer is very complex. Railroads have shed passenger trains as quickly as allowed to over the last decade. Freight trains are governed by antiquated work rules which demand a five-man crew. Railroad track was perhaps over built in their heyday. Passengers have deserted to automobiles, bus lines and airlines. High value light freight has deserted to highway trucking. All this, plus excessive federal regulation (of prices, routes, interchange, merger etc.) together with the typical American emotional inability to consider nationalisation as a means to rationalising the use of railroad resources and facing the book-keeping losses, as other countries do, from national taxes, have led to the decline of the railroads which were once the constructive, developmental and binding factor of the U.S.A.

Unit-trains, where cargo is booked and moved in train-loads (of anything between two and twenty thousand tons) instead of wagon loads or less,

and containerisation where the goods are stuffed into or de-stuffed from large containers (typically 20' x 10' x 8' or 40' x 10' x 8') at points of origin and destination have been developed all over the industrialised world to speed up the movement and productivity of expensive railroad, port and shipping plant (which is a scarce resource all over the world) as well as of the goods themselves. Mechanisation of handling has also led to the need for less labour, which is a scarce resource in developed countries.

In large cities, mostly with population of 1 million or more, metro

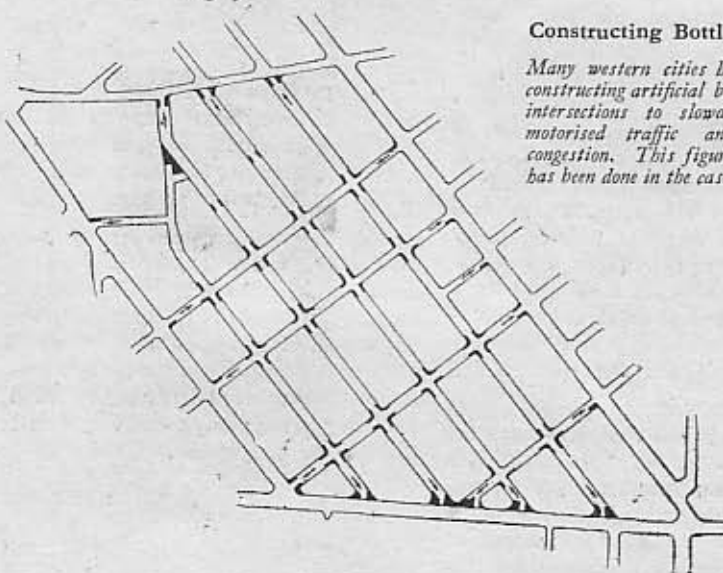
frequency (50 or 60 Hz) but some at the more traditional DC 3,000v or 1,500v. All these will gather "juice" from overhead catenary, third rail being used only for metro urban rapid transit railways.

Denmark: Plans for mainline electrification submitted to Parliament in September 1975.

Greece: Five year plan 1976-1980 includes electrifying Athens to Domokos main-line.

Italy: Electric traction on Ciampino-Colleferro (part of Rome-Naples main line) inaugurated in 1975. Ciampino to Caserta 200 km. now

Fig. 3



Constructing Bottlenecks

Many western cities have now taken to constructing artificial bottlenecks at road intersections to slowdown and reduce motorised traffic and defeat traffic congestion. This figure shows how this has been done in the case of a road grid.

railways (underground, elevated, and on median strips of express highways) are being built or expanded at great cost to defeat traffic congestion and so enable public transit passengers a faster journey than private car riders. But cities that have restrained the private car have been saved this expense.

Entirely new railways, some of considerable length, are being constructed in U.S.S.R., China, most socialist countries, Canada and Japan.

Electrification has entered a big new age of expansion. Table 9 (on page 14) shows the extent of electrified lines, train miles and gross ton miles in selected countries in 1973. The following is a short list of some of the significant developments or plans announced in 1974 and 1975 most at high-voltage AC (11,000v to 25,000v and even 50,000v) and commercial

being electrified. Rimini-Ravenna-Ferrara on the east coast is next in the plan.

Taiwan: West Coast main line 494km. electrification now under construction by British contractor.

Portugal: The 1974-1979 plan will increase electrified track to 470 km.

Paraguay: Asuncion-Camen 400 km. to be electrified with Japanese aid.

West Germany: Further 276 km. of main line to be completed and handed to electric traction by end of 1975.

Pakistan: Khanewal-Samasata (73 miles) and Lahore - Rawalpindi (180 miles) electrification projects issued in January 1975.

Poland: Electrification of Zawiercie-Radzice 143 km. to be completed in 1976.

Soviet Far East: In addition to completing electrification of the entire Transit Railway, the new "BAM" cut-off line (Krasnoyarsk - Lena-Zeysk-Komsomolsk-on-Amur) of 3200 km. length is to be electrified after initial working with diesel.

Bulgaria: 957 km. of new track has been built since 1945. By 1972, electrification covered 1016 km. The 6th five year plan includes electrifying another 596 km. of route.

TRENDS IN WORLD TRANSPORT

The dominant role of rail and water in the transport of goods and passengers, which reached its world-wide zenith in the 1920's, has declined significantly and to some extent irreversibly since then.

The decline was the result primarily of the evolution of the small scale internal combustion engine, and of the design of aircraft. These two developments have stimulated great leaps forward in the design, construction and management of highways and of airports and of means of regulating them. The pipeline has also made a significant intrusion as a transporter of liquids.

These trends towards highway, air and pipe, and away from rail and water have been most marked in the OECD countries. Yet the same trends are beginning to emerge in Eastern Europe, as evidenced by the holding of an International Road Federation Conference in Budapest in September 1974, just as three braking factors are beginning to slow down the trend where it originated. Perhaps the two opposites are interconnected, because if OECD air and auto growth is slowing down, if not yet declining, the manufacturers may wish to lubricate a vast potential market for their products and technologies in Socialist Europe.

The three significant braking forces on auto and air growth in USA, Japan and Western Europe are ENERGY (both price and impending scarcity) POLLUTION (air and noise) and SPACE SHORTAGE (evidenced by incurable congestion).

Hence in the wake of the Club of Rome and various macro socio-economic studies of world growth limits and finite resources OECD is

sponsoring studies of how the motor car is consuming limited resources of fuels and metals, how internal combustion engines and taking air pollution and noise beyond human inconvenience into a health threat, and how cities, and the commerce and culture that lives in them are being stifled.

Environmental groups and ecologists are taking up these issues along with those of industrial pollution (atmospheric, thermal and noise) airport noise, uncontrolled effluence, man-made climatic change and deforestation to such an extent that many countries have state departments or institutions charged with environmental protection, and France even has a Cabinet minister for the "Quality of Life".

It is perhaps significant that Britain's Minister, and Department of the Environment has taken over the subject of transport from the Ministry of Transport, which no longer exists.

Highway trucking and airways have also come under attack because of their noise, pollutant emissions and energy intensiveness and highway construction has come under attack because of its disruption of settled social communities by splitting them, isolating them or opening their privacy to the world.

Motor vehicle manufacturers are conforming reluctantly to newly regulated standards in the matters of emissions, exhaust noise, and tyre tread noise, and the trend back to train, tram, and bus though advocated

by all the ad-hoc advisory committees and task forces appointed by Presidents and Ministers is not yet showing marked performance. Meanwhile most railways, most airlines, and most buslines the world over lose money, and this is complicating the problem. Thus in the industrialised capitalist countries transport of goods and persons is in a state of indecision (in the USA an impasse) and although the solution is known, movement in the desired direction is impeded by consumer life-styles, vested interests, and the share costs involved in construction of rail alternatives.

The picture is different in the Socialist countries, where the motor car and in its wake the super highway has not yet, except perhaps in Czechoslovakia, become an irresistible "growth" urge. Hence transport by water and rail is more planned, and more evident so far in such countries, where each mode of transport tends to play its appropriate part. It is possible however that the decision-making elite in these countries, treasuring the motor-car for its convenience to their own life styles, and not foreseeing that this benefit diminishes as car ownership spreads, will ordain highway development to ease the growing visible problems of congestion, and so set in train the whole series of developments that take away traffic from rails.

Such trends have not been sharply arrested by the "energy crisis" perhaps because the USSR is the largest oil producer in the world and does not yet see as a problem the exhaus-

Table 8 WORLD MOTOR VEHICLES 1973

Country	Population (million)	thousand cars	buses & trucks (thousand)	vehicles total (thousand)	Cars per 1000 Population	Persons per car
1. U.S.A.	211	101,762	23,658	125,420	476	2.1
2. Canada	22	7,823	1,797	9,620	357	2.8
3. Australia	13	4,506	1,077	5,583	345	2.9
4. Sweden	8	2,502	164	2,666	303	3.3
5. Britain	56	13,497	1,985	15,482	244	4.1
6. Japan	109	14,473	10,525	24,999	133	7.5
7. Portugal	8	728	214	942	91	11
8. Czechoslovakia	14	1,193	248	1,441	83	12
9. Chile	10	214	171	385	37	27
10. Zambia	5	66	43	109	14	51
11. U.S.S.R.	251	1,815	5,060	6,875	7	138
12. Sri Lanka	13	89	47	136	7	149
13. Rumania	20	125	—	—	6	166
14. Pakistan	67	177	79	256	3	377
15. India	574	778	511	1,289	1	738
16. Nigeria	80	97	59	156	1	822
17. China	800	30	649	679	—	26,756
World	3,679	233,966	62,561	296,527	67	15

Source: 1975, Automobile Facts and Figures, Detroit

tibility of fossil fuel. In any event, as late as September 1974, nine months after the big OPEC price increase, socialist engineers and planners got together in Budapest with their counterparts from OECD countries to discuss highway developments.

In developing countries (and China ranks with them in this matter) natural resources are not so recklessly squandered on transport. Most personal movement is by public transport, and most goods by resource-economic means such as bullock carts, man-pushed barges and railways. Yet the trend towards highways is clear. In fact the ruling attitudes, and therefore the allocation of capital funds for transport development, are influenced by the exclusive nature of the elite. All decision makers and all of those who influence them are non-users of public transport, and with almost absolute mutual exclusion those who use public transport are not decision makers and have no influence upon decisions or even upon the thinking processes of the elite.

Hence obvious misallocations of resources are not perceived as misallocations, and devious means of curing balance of payment problems, improving the quality of life etc. are not seen. Despite this railways are being built in developing countries, especially where heavy minerals have to be carried, but the messages emerging from professionals in UN, UIC, UITP, OECD and other international bodies are either unheard in developing countries or misinterpreted, perhaps wilfully, as that of industrialised countries not wanting the poor to develop a taste for exhaustible world resources.

CHARGING FOR PASSENGER TRANSPORT

A year or so back Rome ran its tram and bus services free for two weeks. The purpose of the experiment was to induce city travellers to leave their cars and scooters in their suburban homes and travel by public transport. The city thought that it would cost less in social terms to cope with traffic congestion, automotive air pollution and noise caused by private vehicles. The experiment

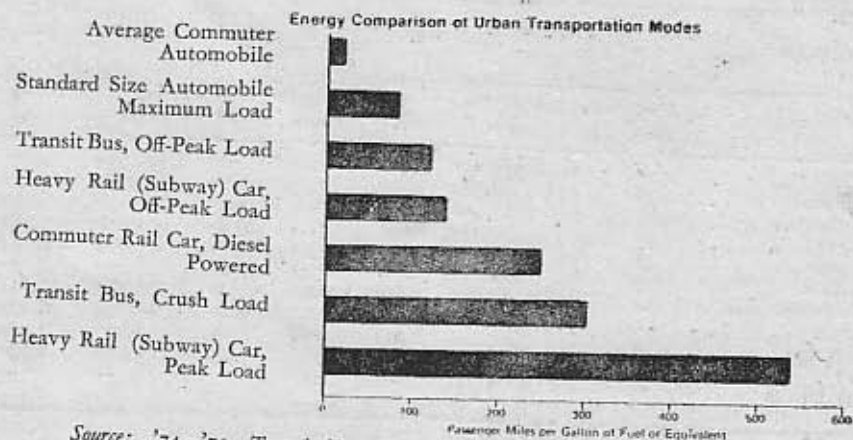
failed to attract sufficient riders to be effective, and proved that cost is not a predominant determinant for people who can choose between private or public transport.

In Nottingham, buses plying between fringe car parks and city centre are free. This scheme is a success because cars are restrained from going where the buses go. Then why not charge for the bus trip? Nottingham's answer is that first they wanted a deal to be traded to motorists in exchange for the restraints and second that the cost of running the special buses is negligible compared to the social cost of motor cars clogging, stifling and de-economising the central business district which pays the highest rates.

Both Rome and Nottingham and others have tried free buses as an ingredient in schemes to relieve congestion. Others have considered free trips as a means of overcoming scarce resources. In countries where man-power is scarce, bus and tram conductors are hard to get. They can cost up to 40% of the total journey cost and, if fares do not cover cost, over 40% of the price they are put there to recover. One-man operation is common but does not completely answer the cost problem because his work of collecting fares and issuing tickets, (irrespective of the sophistication of the gadgets used) slows-down the vehicle and thus increases all costs per distance travelled.

Hence it is argued: save man-power costs by collecting fares through the general rates and taxes system.

Fig. 4



Source: '74-'75 Transit Fact Book Washington D.C.

Flat fares are often used on systems (especially in U.S.A.) to ease the fare collection problem. But the short distance rider pays more than his due share, thus subsidising the long ride passenger, especially if the fare is intended to be profitable. But there is a bigger problem. The flat fare inhibits the operator from extending the route as development proceeds beyond the terminal.

Could free travel be contemplated for long distance rail journeys? Would they stimulate wasteful demand? Would they encourage, for example, long distance commuting? If demand was drawn away from more resource-intensive modes of travel the nation would gain and would have a problem only of re-adjusting internal incomes, but if demand was unduly stimulated from non-travel the position would be different, but ought to be measured before being dismissed out of hand.

If completely free travel is rejected as impossible or undesirable, would token payment be apt, like the twenty five cents paid for hospital service?

The difference would be made up by subsidy from local or central government, in other words paid by the tax-payer at large instead of by the specific rider.

This subsidy is accepted all over the world. In Sri Lanka it has been accepted de facto, but not willingly. Elsewhere the concept is willingly adopted.

For example British Rail in 1973 lost £5 million after receiving a

Table 9 SOME INTERNATIONAL RAILROAD FIGURES 1973

Country Name	Size		Route km.		Train km. (million)		Gross ton km. (million)	
	Mln. Pop.	'000 sq. m.	Total	elec.	Total	elec.	Total	elec.
USA ...	178	3,615	333,245	400	865.0	—	2,739,764	—
Canada ...	18	3,852	66,367	31	137.4	—	335,939	—
India ...	403	1,260	60,149	4,055	473.4	80.5	358,480	17,347
Japan ...	93	143	21,099	6,961	701.3	475.1	303,250	245,198
France ...	45	213	36,300	9,317	477.8	299.1	267,966	206,007
Britain ...	53	94	18,277	3,461	452.1	150.8	—	—
Czechoslovakia	14	49	13,293	2,639	248.6	89.9	153,787	87,815
Spain ...	30	194	13,298	3,413	132.6	61.1	48,939	24,031
Portugal ...	9	35	3,588	417	30.8	10.2	7,297	3,420
Zaire ...	14	905	2,961	858	10.8	4.4	6,476	2,753
Sri Lanka ...	10	25	1,595	—	12.3	—	—	—

subsidy totalling £91 million from the Central Government and various regional governments.

AMTRAK, the quasi-federal sole operator of passenger trains in US, which has no other function, lost \$529 million in 1974 after receiving a grant of \$190 million. The federal government paid, and will continue to pay both operating losses and capital grants.

Chicago Transit Authority (operating buses and subway trains) lost \$62 million in 1974. The loss is shared by City, County and State governments as an act of policy not as a reluctant bailing out operation.

Of course in these countries the problems arise from congestion created by enormous car populations. Unless public transport takes some of the people off the highways the latter will choke to death. Hence highway users as much as transit-riders are willing to pay to keep transit going. Part of the public transport problem is slow bus services due to motor car congestion, and poor income due to poor patronage.

In developing countries the car populations are low, but it may pay even those who own and use the cars to keep it that way. Hence payment by all for good public passenger transport services is not really a subsidy, but payment for a benefit received.

SOCIAL NATURE OF TRANSPORT

It is accepted throughout the world that some services are social

or infrastructural by nature. Hence street lighting, police patrols, public parks, footpaths, are provided at great cost, but no charge is made when a consumer uses or benefits by them.

In most, or at least many countries the entire highway system, the education system, the health system is also provided as a free service.

In all these cases the consumer is not asked to pay each time he uses and benefits by the service. The services are provided at great cost, and technically at least, the institutions that operate them, operate at a loss.

In some cases, where the possibility of charging is apparent, or where in other countries these services are charged for, the cost is regarded as a *social subsidy* but in other cases the word subsidy is not used.

Should not transport be similarly regarded? One aspect of it, the highway system is so provided, except in a few places where usage-tolls are charged on particular stretches, as a social infrastructure. So why not the track used by barges and trains? And if the track why not the vehicles which are as much part of the means of moving people and goods as is the track on which the vehicles move.

There are two chief advantages in regarding all transport as a social overhead or infrastructure. Firstly the objectives of transport will be clearly seen in physical terms and not observed by profit and loss accounts. Secondly the resources used would

tend to be measured against the output of service.

For example a telephone system, once installed at whatever investment cost, can handle simple messages at negligible cost in resources, much less than that of manufacturing, writing and carrying a post card. At a more sophisticated level a half-hour telephone conversation costs much less in the consumption of scarce resources than does the travel by one party by car to the other party's residence to engage in the identical conversation. Yet in both these cases the cost to the consumer, or at least the apparent cost, the immediate, out-of-pocket, cost, is much less for the message made that costs most in resources, and in each case the price of the phone call inhibits its use.

This example is in the comparison of one mode of communication with another. But an examination of transport in comparison with other economic activities is also apt.

Employees can be brought to work by employer-owned lorries, by free issue bicycles, by public transport, or by foot if housing is close by. The employees social function is bus, not riding. He must be transported to work else he will not contribute to economic output. Hence the service of transporting him is more useful to the employer and the society than it is intrinsically to the employee himself. This is easily seen in the case of to-work trips.

But what about from-work trips? If a convenient and healthy return trip is also socially desirable because the worker must feel induced to travel to work on the morrow, the *from-work* trip is also a social service. Then what about the workers ride to the cinema, or the zoo, or a pilgrimage for his family, or his children's rides to and from school?

In most, if not all of this riding, the ride itself is not the object of consumption, but an inconvenient impediment between the rider and what society wants him to produce, or what he wants to consume.

With goods too, transport of produce from surplus or manufacturing areas to deficit or consuming areas does not add intrinsic value to the

produce. The product does not want or need the movement itself, but only the market which has been separated from it by some human historical process. If a country is to remain cohesive, goods and people must be moved over the distances that separate them. This movement is a social service arising from the spread of a nation, and the investment in the means of movement is social infrastructure.

Yet, it can be argued, what about textiles. Is not the production of apparel a social service, and the investment in textile factories a social infrastructure. The question is also one of proportion. Minimum or modest clothing may add to national cohesiveness, but most clothing is not so socially caused, whereas most transport is.

Everybody accepts street lights, law courts, parks, and the Kandy Lake as social needs or amenities. Everybody accepts cinemas, playing cards, novels, electricity as personal consumer items. But where does transport fit between these extremes. If it is placed as a social need the questions will arise of how to charge consumers for the capital cost of the infrastructure, and the avoidable cost of each trip or haul.

Most of the world provides highways free, (but not so canals, railways and airports), but separately charges taxes on things like petrol, whisky, cigarettes, part of the proceeds of which are used for capital and maintenance charges on the highway system.

Many countries charge for parking private vehicles on public highways or adjacent land. Sri Lanka urban governments charge buses for such parking, but only Singapore charges differentially for the right to use highway space where and when it is most scarce.

In Chicago the capital cost of a new electric railway service was contributed by the Federal State, City, County and Village governments presumably because all these authorities thought that treasures garnered from general rates and

taxes should contribute to a social need.

The question of whether transport is a social service or an independent economic activity, goes to the root of the allocation of resources for it, the return social or financial that may accrue from the allocation, and the criteria for measuring the social return.

THE SIGNIFICANCE OF TRANSPORT

Our overview has concerned itself with the purposes, alternatives, nature, means and chief modes of transport and then taken a closer look at the problems of space, energy and vested interests as they affect transport. Thereafter, the main forms of local transport such as railways, canals, trucks, lorries and vans, buses, cars and highways and the main issues connected with them were further analysed. The major trends in the field of transport, in the international sphere, and repercussions of most recent developments in this field were next dealt with and this led on to the key issue of why and how passengers should pay for public transport and finally the very essence of this question which is the social nature of transport.

The factors pervading all these issues is that transport and communication are vital to general economic growth. They provide the infrastructure without which neither industrial nor agricultural development is possible. Transport development contributes to economic progress by enlarging the market and thereby further stimulating economic specialization; helping the exploitation of additional resources by making them accessible; and facilitating the establishment or expansion of other industries. In association with other favourable factors, transport development would enable the economy to become more dynamic and move forward on its own momentum towards higher efficiency and higher output.

The transport 'system' comprises mainly roads, road transport, railways, ports and harbours, shipping, airports and aviation, and posts and

telecommunications. In the case of Sri Lanka, we have a comparatively well-developed 'system' of internal communications. What is required is that the existing system is kept in a state of efficiency and then that it is expanded to meet growing demands.

With the need for a progressive expansion in the transport sector to meet the economic development requirements of the country and also with the pressing demands on the scarce resources of the country, it is necessary that a transport programme for providing economical and efficient transport services at charges related to expenditure should be provided at as low a cost as possible in terms of the real resources of the nation.

Integrated Planning

An obvious aspect of this goal is that it is necessary to adopt a co-ordinated transport policy. The different competing forms of transport, as we have seen, are rail, road, air, canal and inland waterways, and coastwise shipping. All these forms of transport in competition are mutually destructive, and unless integration was provided the very excellence of each system would lead to adverse economic consequences to the country. Integration must be designed to ensure that traffic will flow naturally along the particular channel of transport that suits it best, and for this purpose it is necessary to eliminate the two great evils of unnecessary duplication and wasteful competition.

The development of the various modes of transport needs to be planned in such a manner as to afford the maximum satisfaction of the transport requirements of the national economy at the lowest cost in terms of the nation's real resources, preserving, at the same time the elements of healthy competition, and the inherent advantages of each mode. Existing transport shortages are likely to be seriously aggravated by future demands of economic development. Transport capacity must therefore be expanded as quickly as possible. Transport should not only respond to the demands made on it, but be an instrument for furthering economic development.

THE BUDGET BANKS AND INFLATION

New Directions for Local Banks

In his Budget Speech, on November 5, the Minister of Finance stated emphatically that he would introduce a new approach to banking this year "as a matter of definite policy". The series of measures he would introduce in this regard include a more liberal system of financial assistance from the Banks to those "who have nothing to offer as security except their good ideas, physical strength and education"; and a decentralisation in the decision-making process of the nationalised banks.

Two other vital areas in which the nationalised banks will be called upon to play a more effective and dynamic role are—firstly, the plantation sector, particularly the Government's subsidy schemes and financing of the nationalised plantations industries and also those banking functions relevant to the operations of the export trade in tea, rubber and coconut which were earlier handled by the Agency Houses. Secondly, a streamlining of the process of financing State Corporations and closer supervision and financial control. Also, encouraging foreign banks to mobilise external capital for development projects in the country and drawing on the expertise, management skills and technical know-how that they could possibly attract.

Financing Enterprises of Educated Youth

Educated youth who have nothing to offer by way of property or guarantees will become credit-worthy to the extent that new enterprises to be organised by and run by them, mainly agricultural, can be established with bank finance. A sum of Rs. 100 million will be made available to the domestic nationalised banking sector for this purpose. Money, however, will not be given in the form of handouts. It is intended that in every case of assistance the banks will provide management services, establish project feasibility studies, provide extension services and take

all the steps necessary to give the guidance, advice and supervision necessary to ensure the success of all such projects.

Decentralisation

The Minister felt that the control of the nationalised banks has remained highly centralised with practically all the decisions being taken at Head Office level. His view was that private sector investment licensing in the present system has its problems. It has to run the gauntlet of a massive bureaucracy which neither makes for expeditious decision-making nor takes adequate account of commercial profitability. The existence of bureaucratic controls inevitably breeds corruption. Transferring as many of these decisions as possible to a decentralised and flexible banking system is one method of putting an end to these abuses. The policy would therefore be to decentralise the banks' administration so as to make it possible for effective decisions to be taken at local levels.

Plantations

In the administration of the different producer-subsidy schemes the Minister announced that, in consultation with his colleagues, he has decided to avoid a great deal of the existing bureaucratic process of form filling and the like to ensure that the banks will undertake the totality of this service to persons being financed by the bank. The bank will also undertake the responsibility of acting as the agent of the Tea and Rubber Controller, of the Land Reform Commission, of the Department of Import and Export Control and of the Exchange Controller whenever they undertake financing operations on behalf of these departments in relation to agricultural development or trade.

The actual supervision of the administration of subsidies and their proper utilisation will also be checked upon by the banks. Even the functions which used to be performed in respect of the Estate Companies by the estate departments of the agency companies could be worked extremely efficiently and well through the banking system thereby avoiding

many of the problems that arose under the earlier dispensation. The administrative arrangements to make this possible within the banking system will require training, the recruitment of personnel and a whole new approach to the system of banking as we know it. The Minister expressed confidence that this change of direction is something he would be able to achieve within a short space of time.

State Corporations

A policy with regard to State Corporations obtaining their financial requirements from the banking sector was explicitly spelled out. The system of providing finance to the State Corporations through the banking sector would continue. But, in any case where a State Corporation is shown to be running losses not due to adverse trading conditions or misfortunes of an unforeseeable kind, but due to plain downright mismanagement or absence of necessary financial controls the Bank should report every such instance to the Government. Where the Government thereupon thinks it desirable to set the affairs of the Corporation in order by imposing limitations upon its autonomy, through the ministry in charge of that particular corporation, it should do so by imposing budgetary controls in much the same manner that local government institutions or co-operatives which are not well managed are made to function better than before.

Foreign Banks

The foreign Commercial Banks have been engaged mainly in the financing of the import and export trade in the sectors not controlled by State Corporations or Government Departments and financing of the estate plantations and the export trade in tea, rubber and coconut through the Agency Houses. With the nationalisation of the estates as phase two of land reform, ownership and economic control of our greatest asset, the lands of this country, are also now in State hands. In these circumstances, the banking functions relevant to their operations will be transferred to the nationalised bank-

ing sector, viz. the Bank of Ceylon and the People's Bank. This is tantamount to a *de facto* nationalisation of the private activities of foreign commercial banks.

What was expected of the foreign banks was not merely a mobilisation of domestic resources and its channelling out to the traditional forms of investment. What was required is the infusion of new external capital from private sources to be used in the establishment of new enterprises in this country, to provide new employment for our people to teach them new skills, to develop new projects, to provide management consultancy services and to provide a catalyst service to bring to them the talents and skills, technical competence and know-how that has to be brought in here to modernise our nation and to bring it in line with the international community. For this purpose, quite apart from the existing foreign Commercial Banks, new foreign banks interested in coming into this country have been invited not for the purpose of sharing in the mobilization of our domestic resources but in order to bring into the country new capital, new expertise, technical know-how, management skills and competence.

INFLATION

Right at the outset of his Budget Speech the Minister of Finance took on the subjects of inflation and devaluation. He summed up his views on inflation thus: "What is relevant is not the budget deficit as such, which is financed by bank borrowing, but the need to ensure that the overall limits set to money supply taking the Government and private sector together are 'safe' in the sense of not provoking an excessive rise in prices. I am far from being a believer in outright inflation, which is simply a disguised form of taxation and fraught with dangerous consequences." Later on the Minister explains in his speech the repercussions of inflationary and recessionary trends throughout the world and how they are being dealt with. (See Box)

The UNCTAD Secretariat also reported recently on this trend. It

Many of the economic difficulties of the present day not merely in Sri Lanka but throughout the world, especially in developing countries, arise from a wide degree of inflation prevailing in the industrialised countries simultaneously with a recession which reduces the demand for goods. A change in prices paid on any one essential imported commodity, be it an item of manufacture, fuel or food, would result in creating not merely an inflationary impact on our economy but changing the economic picture as a whole, even requiring reconsideration of the entire domestic budget. It is now internationally recognised that these external shocks are most appropriately dealt with by specific arrangements to finance the resulting imbalances rather than by enforced measures of deflationary domestic adjustments, detrimental to development.

Felix R. Dias Bandaranaike
Minister of Finance
Budget Speech, November 5, 1975

concluded in the following simple terms that both inflation and recession in the developed countries pose grave problems for the developing countries.

Major Problem for Developing Countries

"The seventh special session of the General Assembly has identified inflation in the developed countries as creating a major problem for the developing world.

Inflation in the developed market economy countries is no new phenomenon—it has marked the entire post-war reconstruction and growth period. Since the late 1960's, however, its pace has accelerated, culminating in the highest peace time rates in the modern economic history of these countries.

Why has inflation been such a pervasive feature of the post-war growth pattern of the developed market economy countries? Obviously, there cannot be a simple answer. It is clear that no inflation can take place without national governments fuelling the economy with new money. But why is more money created than the increased output of goods and ser-

vices justify? A widely accepted answer is that built-in institutional pressures leave no other options to politicians (at least if they want to stay in office). These pressures are, in particular, industrial concentration, unionization and the protection demanded by the weak and uncompetitive sectors.

In wage negotiations, trade unions in sectors where productivity has gone up usually lead the battle for wage increases. They set the pattern for increases in less productive sectors, whose employees expect to be treated equally. Thus, the wage rate for the economy as a whole will be determined in the sectors enjoying the fastest productivity growth. In sectors where productivity is rising at a slower pace whilst wages follow the general trend, prices will rise as employers defend their profit margins. These price rises are generally not compensated by price falls in the sectors where productivity has gone up and profit margins have increased. Inflationary pressures on prices are increased through government protection of high cost industries accorded out of social considerations or appeasement.

If the supply of money is not augmented, people will be unable to buy the generally higher priced goods. Firms will sell less, and unemployment will follow. In the trade-off between unemployment and inflation, governments have generally preferred higher rates of inflation to higher rates of unemployment because, traditionally, the public is more sensitive to higher rates of unemployment than to inflation. There is a certain point, however, when public concern over inflation becomes so great that governments need to take action.

At the same time, the struggle among the social groups for a bigger piece of the economic pie continues, pushing up wages, prices and profits, and governments find themselves torn between policies of inflation dampening and employment creation. In the course of these stop-go policies, inflationary pressures lose their stimulating effect on the economy.

(Continued on page 18)

The result is "stagflation" inflation coupled with low or even negative growth—which has become a pervasive factor in Western countries.

This new phenomenon of stagflation seems to defy conventional economic remedies and has given rise to doubts regarding the ability of the developed market economy countries to assure long-term stability and balanced growth. These doubts are shared by the developing countries. Inflation always hits hardest the economically weakest members of a system, those who have no power to push up the price of their contribution.

Inflation has a deteriorating effect on the prices of the commodities they have to offer. One of the reasons for this is that the output of commodities, especially agricultural commodities, cannot be easily adjusted to changes in prices and demand.

In contrast to manufactures, whose supply can be more readily adjusted to changes in demand, commodity prices show sharp up- and downturns. In the upswing, the increased prices of commodities are incorporated in prices of manufactured goods. During the downswing of the business cycle, however, commodity prices fall sharply, while prices of manufactures continue to rise, due to the above-mentioned institutional pressures. The consequence is that when the business cycle has run its full course, primary commodity prices are often at levels prevailing before the upswing, while the prices of manufactures show a net gain. In this way, inflation has had a long-term deteriorating effect on the terms of trade.

But the impact of inflation on developing countries is not only limited to the price relationship of their primary commodities with manufactures. It also affects their respective volume of sales. In times of a business upswing and strong demand, exporters find it difficult to export more as they cannot easily expand production. In a recession, commodity processors drastically decrease their purchases of raw materials. The result is that, while the developing countries cannot fully enjoy the effects of an upswing, they are fully hit by the effects of a recession.

Both inflation and recession in the developed countries therefore pose grave problems for the developing countries."

Agriculture

THE BUDGET AND THE AGRICULTURE SECTOR

The Budget of November 5th, 1975 proposed a 50% subsidy on fertilizer for paddy and plantation crops, thereby bringing about an uniform subsidy scheme. This would assist farmers and would minimize leakages of fertilizer from the subsidized to non-subsidized sector. To the farmer it will be a reduction from Rs. 134/- to Rs. 57/15. It is this balance that will be subsidised by the government. This subsidy will extend to all other crops. Not only paddy, but also tea, rubber, coconut and even vegetables. With the soaring prices of fertilizer many cultivators had given up using fertilizer which in turn led to a sharp drop in their productivity. The Wet Zone areas were the most affected in this regard. Subsidised fertilizers should reverse this trend.

Control on tractor hires to farmers and the taking away of import duty on two wheel tractors would undoubtedly reduce the cost of inputs and give some relief to the peasantry. Rebates for increased production has also been proposed through crop diversification. An additional sum of Rs. 100 million over and above the Rs. 250 million that has already been provided for in the 1976 estimates in respect of the decentralised Capital Budget would give a fillip to the food drive.

LAND REFORM (AMENDMENT) LAW No. 39 of 1975

The nationalization of all public company estates took place with the enactment of the Land Reform (Amendment) Law No. 39 of 1975 on October 17th, 1975. The Law vested in the Commission 415,508 acres of cultivated tea, rubber and coconut and other tree crop lands, belonging to 232 public companies, both rupee and sterling. The total number of estates numbered 396. Of the 232 public companies, 87 were Sterling Companies owning 191* estates and 145 were Rupee Companies owning 205 estates. There are 20 owning companies managing 20 estates. The

total acreage vested in the Land Reform Commission consists of 292,126 acres of tea, 110,021 acres of rubber, 8,036 acres of coconut and 5,325 acres of minor crops like cinnamon, cardamom, etc. Nearly 136,345 acres of tea of the 292,126 acres were owned by Sterling interests. 63,201 acres out of 110,021 acres of rubber and 2,433 acres of coconut out of 8,036 acres of coconut were also owned by Sterling companies. Thus a total of 201,979 acres out of 415,508 acres of the cultivated lands nationalized, belonged to Sterling Companies. Of the 396 estates, 376 estates were managed by 22 Agency Houses. Six Agency Houses controlled 70% of the estates or 13 Agency Houses 86% of the company estates.

Agency Houses controlled 62.1% of the total tea production, 27.3% of the rubber production and 3.9% of the total coconut production.

The total acreage vested was distributed in the following districts: Nuwara Eliya (82,171 acres), Kandy (76,963 acres), Badulla (77,837 acres), Ratnapura (50,352 acres), Kegalle (42,764 acres), Colombo (9,418 acres), Kalutara (27,756 acres), Galle (21,288 acres), Matara (4,819 acres), Puttalam (911 acres), Kurunegala (6,021 acres), Matale (13,161 acres), and Moneragala (2,031 acres). The former agents, managers will act as statutory trustees on behalf of the Land Reform Commission for a period of one year. These lands, according to the law, can be alienated to the State Plantations Corporation, any State Corporation established under the Agricultural Corporations Act, Usawasamas, Janawasas, collective farms, DDC's, electoral level Land Reform Co-operatives, the Coconut Cultivation Board, the Rubber Research Board or alienated for village expansion and for human settlements. Compensation will be paid and the mode, means and method will be decided on by the Minister of Agriculture and Lands. Powers have been given to the Minister of Agriculture and Lands to acquire any Agency House and change any director, if the need arises.

COMMODITIES

TEA

First Colombo Tea Auctions After Nationalization of Estates

The first tea auctions in Colombo after nationalization of public company-owned estates was held on October 21, 1975. The average prices at this sale against those for the corresponding period in 1973 and 1974 reveal that all teas fetched higher prices than in the earlier years. About 3,964,732 kilos of teas were offered at the auctions and comparative Net average prices per kilo are as follows:—

	(Rupees/Kilo) Net		
	1973	1974	1975
High Grown	4.71	6.55	6.40
Medium Grown	4.01	5.64	5.42
Low Grown	4.08	6.52	6.00
Total	4.30	6.24	5.94

Compared to the mild resurgence in the tea market in the previous weeks tea auctions in Colombo, there was a dramatic revival in prices of all good liquoring teas in the auction of October 21. Widespread and enthusiastic competition prevailed at this first auction since the historic and momentous change in ownership of the estates in Sri Lanka. Spokesmen for the tea industry and trade were all of the view that there was no substance in the belief, held in some circles, that the take-over of publicly owned companies (both foreign and local) would adversely affect the prices of Ceylon tea. Quite the contrary appears to have happened. Almost all categories showed substantial gains in price over the earlier week's rates, with even further improvements being seen as the sale progressed. The emphasis was on teas with useful leaf appearance. South African buying was the feature in this auction. U.K. buyers were far more active than they had been for much of this year whilst Japan afforded active support to the BOP's grade. Sudan, who recently signed a contract for the supply of approximately 10 million pounds of Ceylon tea, were also participants at this auction after a period of 10 years.

THIRD QUARTER REVIEW

Production

Tea production during the period January to September 1975, amounted to 364,171,105 lbs. as compared with 329,935,393 lbs. in the corresponding period in 1974. The production figures for September 1975 and the period January/September 1975, as compared with the same periods in 1973 and 1974 is given below:

	SEPTEMBER (Kilos)		
	1973	1974	1975
High Grown	5,426,045.4	4,777,445.6	4,971,458.2
Medium Grown	4,540,993.5	4,077,162.5	4,900,564.3
Low Grown	3,827,930.5	4,078,366.8	4,609,988.6
Total**	13,794,969.4	12,939,974.9	14,482,011.1

**Lowest crop for September 1952 — 790,791 Kilos.
Highest crop for September 1965 — 18,164,087 Kilos.

JANUARY/SEPTEMBER

	1973			1974			1975		
	1973	1974	1975	1973	1974	1975	1973	1974	1975
High Grown	59,681,691.2	58,856,402.1	62,897,665.4	52,337,172.0	52,138,106.4	57,304,919.3	44,983,923.4		
Medium Grown	44,201,884.7	39,115,439.5	44,983,923.4						
Total	156,220,747.9	150,109,948.0	165,186,508.1						

Exports

The volume of tea exports during the first nine months of 1975 was higher by 73.8 million lbs. over the corresponding period in 1974. This may be ascribed to increases in production, demand and prices. Export statistics for this period are given below:

	JANUARY/SEPTEMBER	
	1974	1975
Exports volume (lbs.)	282,505,131	356,213,429
Exports value (Rs.)	944,575,364	1,481,098,509
F.O.B. value per lb. (Rs./c.)	3.34	4.15

Prices

Average net prices of teas at the Colombo Auctions for the period Jan./Sept. 1975 as compared with the same periods in 1973 and 1974 are given below:

	JANUARY/SEPTEMBER (Rupees/Kilo) Net		
	1973	1974	1975
High Grown	4.60	5.95	6.32
Medium Grown	3.88	5.33	5.90
Low Grown	3.92	5.62	6.40
Total	4.17	5.64	6.20

Subsidy for Indian Tea Estates

The Indian Tea Board has decided, with the approval of the Government of India, to introduce a scheme for the renovation and consolidation of areas under tea. The scheme which came into effect from October 3, 1975 provides for the grant of a subsidy up to Rs. 4000 per hectare (1 hectare = 2.47 acres) and is designed to help small growers of tea as well as small tea estates especially in the hill areas like Darjeeling which cannot afford uprooting of old tea areas. This scheme is intended to enable undertaking of heavy pruning of existing tea bushes and also replanting in old areas and to improve the per hectare productivity. It is estimated that over one third of the Indian tea area is over 50 years old.

(Continued on page 20)

Commodities continued

COCONUT

Export Duties Removed

The Minister of Finance announced in his Budget Speech, on November 5, that he proposed to remove the existing export duty on Copra, Coconut oil and D.C.

Actual Exports

Export earnings from the coconut products in September 1975 at Rs. 26.3 m. showed a substantial decrease of Rs. 18.7 and Rs. 39.0 m. in comparison with the previous month and the corresponding month last year.

Earnings from the export of Coconut oil in September 1975 at Rs. 16,000 showed a sharp decrease of Rs. 23.6 m. or 100% when compared with the

previous month. This was due to the sharp drop in oil exports. The quantity exported during this month was only 5000 kilograms.

Earnings from the export of D.C. in September 1975 at Rs. 18.7 m. showed an increase of Rs. 5.5 m. when compared with the previous month.

Earnings from the export of coir fibre and fibre products in September 1975 at Rs. 4.5 m. showed a decrease of Rs. 1.7 m. compared with the previous month. This was due to the drop in the volume exported.

The table below provides data on export volumes and values of coconut products for January to September 1974 and 1975.

EXPORT OF COCONUT PRODUCTS

		1974 January-August		1975 January-September	
		Volume	Value Rs.	Volume	Value Rs.
Coconut oil	Kgs.	15,140,270	100,098,572	35,915,478	133,049,637
D.C.	...	30,671,976	177,764,996	38,606,770	144,083,844
Copra	...	6,096,344	291,656	684,925	3,340,665
Poonac	...	2,941,181	977,713	101,605	39,831
Freshnut	nuts	627,057	925,280	3,351,629	4,844,127
Fibre products	..	84,329,050	78,739,191	49,949,614	61,177,143
Shell products	..	21,674,077	21,290,065	13,040,691	10,431,357
Total Value		—	380,088,373	—	357,206,524

RUBBER

Export Performance

Exports of Rubber during the first nine months of 1975 at 262.8 m. pounds were higher than that for the corresponding period in 1974 by 37.2 m. pounds. However, export earnings were lower by Rs. 182.3 m. Prices for RSS 1 continued to maintain a steady level.

There was a marked increase in the exports of Block Rubber, Latex Crepe and Sheet Rubber as compared with the corresponding period in 1974. Prices had averaged approximately Rs. 1.65 per lb. in the first nine months of 1975 as against approximately Rs. 2.75 per lb. during the same period last year. For details see table below.

RUBBER EXPORTS

	1974		1975	
	January - September		January - September	
	Quantity (lbs.)	Value Rs. m.	Quantity (lbs.)	Value Rs. m.
Sole Crepe	6,315,593	30.7	7,563,202	20.0
Latex Crepe	63,840,153	197.7	74,546,813	139.7
Scrap Crepe	23,447,370	52.0	22,168,214	31.1
Sheet Rubber	131,298,516	336.5	156,642,787	242.3
Block Rubber	537,048	1.5	1,757,870	2.9
Latex	4,141	.009	94,204	0.1
Grand Total	225,642,821	618.4	262,773,090	436.1

New Copra Drying Process

Mr. Vicente Gabriel of the Philippine Inventor's Society has invented a new Copra drying process. The Gabriel process produces Copra meat which is white and clean with moisture content reduced from 48% to 5% and with a protein content of 25%. This process produces charcoal that retains 85% of its carbon content and has a moisture content of only 5%.

SPICES

Cinnamon Exports Decline

Export earnings from spices during the first nine months of 1975 were lower by Rs. 14.7 million as compared with the corresponding period in 1974. The quantity of Cinnamon exported during this period at 57,953 cwts. were lower by over 48,000 cwts. when compared with exports in the same period in 1974. Exports to Mexico, the main single market for Sri Lanka Cinnamon, during this period was 5924 cwts. as compared with 23,371 cwts. in 1974. Exports of Cardamom have shown a marked increase during the period under review.

Essential Oils

Export earnings from Essential Oils during the period under review continued to be lower when compared with the corresponding period in 1974. With the exception of Nutmeg Oil, all other oils has shown a substantial decline both in quantity and in value. Total earnings from exports of essential oils in the first nine months of 1975 was Rs. 3.2 million as compared with Rs. 10.7 million during the corresponding period in 1974.

EXPORTS

Spices	1975	
	Quantity Cwts.	Value Rs. m.
Cinnamon	57,953	28.7
Cardamom	5,003	9.1
Cloves	3,149	5.2
Pepper	1,888	1.2
Nutmeg	1,698	1.0
Essential Oils		
Cinnamon leaf oil	688	1.1
Cinnamon bark oil	4	0.2
Citronella Oil	1,503	1.6
Ginger oil	2	0.05
Cardamom oil	3	0.03
Clove oil	—	—
Nutmeg oil	44	0.2

Can the Poor Support the Rich?

M. A. Hussein Mullick

During the past twenty years, many developing countries have seen their growth rates soar. But they have also seen unemployment increase because of the failure to create adequate job opportunities. They have seen income inequalities widen and poverty spread more deeply into the lower depths of the population. Those elaborate economic theories which, for the most part, were developed in western industrial countries, have contributed to understanding several of the special problems facing emerging nations but, on the whole, the results have been disappointing.

Western Theories are Unsuitable

Many factors have led to the failure of past development efforts in the Third World. Fascination with the growth rate of the GNP along with the concomitant extraordinary role assigned to non-human capital, have conspired, with inequality and the capitalist system, to produce failure on a grand scale. The importance of capital has been exaggerated out of all proportion. No one denies that capital plays one of the key roles in the creation of employment but it alone cannot trigger the whole process.

Concepts like the marginal rate of savings can also be misleading. Planners are tempted to choose those projects which ensure the highest marginal rate of savings on the basis of this concept. But the concept is dangerous. True, the economy does succeed in generating maximum savings from amounts invested, but in the process important social goals are by-passed and the mobilization of various production factors is neglected. Poor countries, where capital is scarce and where

The concept of the equitable distribution of wealth in poor countries is increasingly coming to be realised as an important factor in the development process. In this article Hussein Mullick examines some aspects of this problem. Mullick is the Chief of Research, Pakistan Institute of Development Economics, Islamabad.

what economists call factor endowments like labour, raw materials and rudimentary skills are abundant, turn-out in the long run to be net losers, not winners. In the same way, capital-oriented theories have emphasized income inequality as a concomitant to modern development. As a practical result of these development models, small islands of development are created, while the larger agricultural sector and export or small-scale industrial sub-sectors are ignored. This inequality-based development leads to another undesirable consequence — the production of goods and services for the relatively privileged well-off part of the population.

The lack of sufficient and sufficiently powerful social stimuli in the majority of Third World countries is another important weakness of present development policies. Most poor countries suffer from an "early" capitalist economic order largely brought about by two factors. First, the inability of leadership to devise alternative socially acceptable development systems, and second, the use of "leverage" by capitalist countries to promote the interests of powerful vested groups of capitalists or exploiters in the poor countries. These groups are now well-established and strong enough to run the economies of their countries on their own terms for at least one or two more decades.

New Ways

The Third World must now explore new ways to meet the various challenges of development and not dwell on past development failures, particularly in the fields of employment and social justice. Western development theories and experience may offer some basic truths and tools for Third World development, but

the realities of the recent past have demonstrated only too clearly that the emerging nations must develop their own designs for development to meet the aspirations of their broad masses.

It is unfortunate to find so many higher GNP-growth advocates among economists, when it is well known that these rates mean so little for the masses of population in developing countries. Mere statistical growth does not indicate that high growth has had a positive role in the economy. In the same way, mere increased steel production doesn't indicate real economic development, especially if it is used mostly in military and weapon construction.

Achieving real development means departing from long-established capital-oriented development models. This can be done by adding to the previous development recipes the element of "raw labour". This is one resource which is very much available in many developing countries. There is no reason why development equations cannot be formulated to illustrate new ways to substitute gradually human time and human capital. But this shift in development policy is impossible under the prevailing economic power constellations where 20 per cent of the population dominates both production and distribution. If and when the use of raw or unskilled labour increases, both production and distribution will have to be restructured and this will obviously involve de-monopolization and de-oligopolization of the present economy dominated by the "twenty percenters".

Ensuring social justice for the broad masses would require the development of, as Pajestka puts it, "a new ... matrix of development interrelationships, the 'input' side of which would cover different economic factors, while the 'output' side would deal with the social effects of their various applications. These social effects would include their impact on employment, on income, on the qualifications of individuals, on health, on cultural development ..."

One explanation for the failure of past development models could be that they are based on false premises as far as Third World economies are concerned. Having grown out of Western countries' development experiences, these models make neither allowances for the fact that the developing countries' economies are quite different from those of developed countries, nor that they differ among themselves.

Industrial countries' economies operate under quite different conditions. They possess well-developed market mechanisms and are endowed with suitable socio-political discrimination against non-capitalist sectors, against imperfect market mechanisms, against external interferences and, last but not least, against the prevalence of sharp income inequalities with their negative impact on output and mass-consumption.

Sharp differences in income and opportunities have a direct and much more unfavourable impact on production and employment in underdeveloped countries than they have in developed economies. The fact that the present constellation of socio-economic and political forces are both products of and defenders of an inequitable order means that new resources injected into the economies of these countries, planned or unplanned, automatically begin to make things worse. The unfortunate consequence is that inequalities in income along with inequalities in opportunities have become the standard in most developing countries. The economic order, based as it is on the foundations of "disequalizing forces" does not promote an efficient and fair nationally-spread development. On the contrary, it maximizes the wealth of the richer groups and strengthens their hold over the poor masses.

In a nut-shell, underdevelopment is not merely the backwardness of some in relation to the growth and advancement of others, but also the condition under which the development of some is obtained and supported by the sacrifice of others. In this sense, what underdevelopment amounts to is essentially social and economic imbalance at the national, regional and international levels.

1975—"CRUNCH" YEAR FOR THIRD WORLD

George Bickerstaffe

Two major reports—from the World Bank and the General Agreement on Trade and Tariffs (GATT)—have painted a bleak picture of the economic prospects of developing countries in the current world situation. Making use of these two reports, Bickerstaffe, the London correspondent of the World Feature Service, focuses on the plight of exporters of primary commodities and suggests that fundamental changes are required in the "economic order".

Two major reports have cast a bleak light on the economic position of those developing countries that are forced to import petroleum and related products.

The annual report of GATT (the General Agreement on Trade and Tariffs), and the World Bank's annual report both point to 1975 as the "crunch" year for the oil-importing developing world.

The boom in the industrialised countries of 1972-73 which sent the demand for, and the price of, primary commodities soaring has collapsed.

The oil-importing developing world has seen its major export earning potential vanish, while its imports, from the industrialised countries, have risen in price through world inflation.

The World Bank report estimates that in 1975 the purchasing power of exports of primary commodities will decline by 13 per cent.

The effect of this decline on individual developing countries is emphasised in the GATT report.

By indexing the prices of a list of 26 commodities which in 1972 represented 60 per cent of the exports of the developing world (excluding the oil producers) against the prices of imported manufactured goods, food and fertilisers, the report shows that five of these commodities fell in buying power even during the commodity boom. (The five were tea, jute, iron ore, tobacco, and bananas).

Eleven developing countries depended on one of these commodities for between 20 per cent and 50 per cent of their total export earnings, while five countries had more than 50 per cent earning dependence on one.

By April this year another 10 commodities on the list had declined below their 1969-71 value, wiping out the benefit of the price boom. Twenty-six countries were dependent on one of these for up to 50 per cent of their export earnings, and 16 countries for more than 50 per cent.

The World Bank report comments that increased aid from the developed world, and the opportunity for greater export earnings are essential. GATT, however, feels that the real economic storm is only now hitting the developing world. "Only in 1975 will the stagnation and decline in

income in the industrial areas exert their full adverse effect on the economies of developing countries", it says.

The reason for this is that the increase in exports and the rise in prices during the commodity boom allowed many developing countries to boost their economies, and expand their international reserves in some cases, because of time lags, right up to the middle of last year.

Since then the recession in the developed world has turned the terms of trade against them, and many have had to finance large balance of payments deficits—made worse by the rise in oil prices.

These deficits have been financed by large-scale commercial borrowing and the expenditure of international reserves—in the past six months these reserves have been reduced by US \$650,000,000.

The balance of payments situation in the developing world could become so bad that import controls are introduced, aggravating the recession in the industrialised countries.

At the same time, the current falling off in the level of inflation in most developed countries—which benefits the developing world as well—is mainly due to the depressed prices for primary commodities.

The World Bank report calls for an increased flow of concessionary "no strings" development aid, and an expansion and liberalisation of world trade as the answer, though it has reservations about both.

World trade offers more positive potential, the bank report suggests. The liberalisation of import controls against primary commodities, it argues, could halve the amount of extra foreign exchange required to reach the 6 per cent growth target. It would also, though, involve the oil-importing developing countries in some US \$18,000 million investment in additional productive capacity to meet the extra demand.

If the "crunch" year of 1975 is to be avoided and not to become a recurring phenomenon, international co-operation is certainly essential, and the adjustments involved in establishing "a new economic order" may have to be more fundamental than any yet envisaged.

Sri Lanka and the European Economic Community

Jayantha Kelegama

The European Economic Community (the "Common Market") is one of the largest trading blocs in the world. Recently Sri Lanka signed a general trade agreement with the E.E.C. and procedures are now being finalised to enforce the commercial co-operation agreement from December this year. Most members of the E. E. C. constitute generally that region which colonized the rest of the world for over five centuries. Some of the recent agreements with the E.E.C. have been with most of its ex-colonial countries. Critics have assailed some of the new agreements as being a continuation of neo-colonialism. In this article Jayantha Kelegama examines the history of the E. E. C. and its new relationship with Sri Lanka. Dr. Kelegama is the Secretary of the Ministry of Internal and External Trade and was intimately involved in the negotiations with the E. E. C.

The European Community is an association of nine West European countries working together to improve their people's living and working conditions by eliminating as many national barriers as possible and welding into one economic unit their nine national economies. The founding members were Belgium, France, Germany, Italy, Luxembourg and The Netherlands—commonly known as "The Six" with a population of 180 million. The United Kingdom, Ireland and Denmark became members on January 1, 1973, thereby increasing the six to "The Nine". Legally there are three European Communities: (1) The European Coal and Steel Community (ECSC) created by the Paris Treaty of April 18, 1951, to pool the six nations' coal, steel, iron ore and scrap resources in a single market; (2) The European Economic Community (EEC) commonly known as The Common Market established by the Treaty of Rome of March 25, 1957 to create a customs union and integrate the six nations' economic policies; and (3) The European Atomic Energy Community (Euratom or EAEC) established under a Second Treaty of Rome of March 15, 1957 to provide for the development of a community-wide atomic energy industry and of other peaceful uses for nuclear energy. Since July 1,

1967, however, the three Treaties or Communities have been administered by the same institutions and the three communities are referred to as "The Community".

The suffering and destruction of World War II and the determination to prevent another European conflict prompted the movement toward economic and political unity. Two ruinous global wars, followed by economic and social collapse, taught the founding members the limitations of national sovereignty. Individually, Western European powers had become a secondary influence in world affairs; united, they could constitute an economic power of continental scale. They saw the economic disadvantages of a continent fragmented by internal barriers. They were, therefore, willing to try a different way of organising their relations with each other: they were prepared to seek a solution in common. The deeply felt need for closer co-operation gave rise successively to the Brussels Treaty Organisation (later known as Western European Union), the Council of Europe and the Organisation for European Economic Co-operation, all established immediately after the War. These European organisations provided new means of consultation and co-ope-

ration but they did not meet fully the need for greater security for prosperity. This, they decided, could come off from pooling of their economic resources.

The first of the three Communities, the European Coal and Steel Community, was successfully launched as a pilot plan for future integration of Europe on May 9, 1950. Inspired by the ideas of Jean Monnet, the man responsible for the French National Economic Plan, Robert Schuman, Foreign Minister of France, on that day appealed to the nations of Europe, and to Germany in particular, to pool their coal and steel under a common authority. Five nations—Belgium, Germany, Italy, Luxembourg and the Netherlands—responded favourably, and this led to the signing of the Paris Treaty in 1951 creating the Community. The Coal and Steel Community began to create a single market for coal and steel for the six-member countries, enabling these products to be traded freely. Although similar efforts in the 1950s to set up European defence and political communities failed, the coal and steel community succeeded and encouraged the Six to try to extend the formula to the whole field of economic activity. At a conference held in Italy in 1955, the Six produced a plan for two new communities—EEC and Euratom.

Advantages of a Single Market

The Six had seen in the coal and steel sector the advantages of a vast single market where goods could move freely. The creation of one multinational unit with 180 million people, instead of 50 million as in France or Germany, was expected to promote greater wealth and economic stability than a single nation of 50

million for fewer inhabitants. Finally, it was hoped that economic integration would help lead to the long-term goal of political unity. Experience gained in the European coal and steel community helped in the establishment in 1958 of the European Economic Community and the Euratom.

The EEC or the Common Market, with free movement of persons, goods, services and capital and the development of common agricultural and commercial policies, was to be created over a transition period of twelve years beginning on January 1, 1958. Some of the objectives, however, were achieved ahead of schedule. By July 1, 1968, one and a half years ahead of the original target date, there was free trade within the community both in industrial goods and in most farm produce. The Six had eliminated intra-community tariffs, and established a common tariff on goods imported from non-member countries.

The European Community emerged as the world's third most powerful industrial unit after the U.S.A. and the USSR. It had by 1970 the world's second largest output of cars, after the United States, and the third largest output of steel. It was also one of the world's leading agricultural producers—the second biggest producer of milk and meat. Its rate of economic growth was very impressive. Between 1957 and 1969 its gross product increased by 95 per cent compared with increases of 61 per cent. in U.S.A. and 42 per cent. in the U.K. The Community's foreign trade increased more rapidly than the others. From 1958 to 1970 its exports and imports from other countries increased in value by 183 per cent. compared with 149 per cent. in the U.S.A. and 107 per cent. in the U.K. Trade between the member states increased even more sharply—by 330 per cent.—over the same period. The Community is the world's largest trader and the major importer from developing countries. In 1970, the Community's imports from the rest of the world amounted to \$45,622 million and its exports \$45,199 million compared with United States' imports worth \$41,056 million and United States' exports worth \$42,157 million.

The Community is also an important source of aid to developing countries. In 1969 the total flow of official and private resources to developing countries and multilateral aid agencies including the European Development Fund totalled \$5,197 million compared with \$4,645 million from the U.S.A. and \$1,069 million from Britain. Net disbursements from the Community countries amounted to about 40% of western aid. The Community also grants food aid under the food-aid agreement negotiated with GATT in 1967. It is responsible for 23% of the food aid to developing countries (U.S.A. 42% and U.K. 5%).

One of the main goals so far reached by the Community of Six as mentioned earlier is a customs union by the removal of tariffs, quotas and other trade barriers between the members so that goods move freely as in one large country. The customs union also meant the establishment of a common external tariff to all imports from the rest of the world so that the goods imported from non-community countries are subject to the same import duties in all the member countries. National tariffs of the Six were aligned on the common external tariff in three steps, the last of which was in July 1968. For most products the level of the common external tariff was fixed at the arithmetical average of the tariffs applied on January 1, 1957 by the six members; for some key products, however, it was fixed by negotiation between the six. With the reductions in the common external tariff by about 35-40% carried out in 1971 under the Kennedy Round Multilateral Tariff Cutting Agreement, the Community's tariffs have become the lowest of all industrialised countries. The common external tariff on industrial goods averages 6 per cent. compared to 7.6% in the U.S.A. Since completing the common external tariff, the Community has unilaterally made several cuts without asking for reciprocal concessions, in duties on products vital to some developing countries. In 1963, it suspended entirely its duties on tea, mate and tropical hardwoods, reduced its duties on coffee and cocoa by 40% and on shellac, various spices and other tropical products by 15-20%.

MEMBERSHIP AND ASSOCIATION

The influence and impact of the Community—as the largest trading power in the world—is so decisive that many countries have sought membership, association or trade agreements with the Community. Full membership is open only to European states; some European countries have been allowed association with the Community as a step towards eventual membership, e.g. Greece, Turkey, Malta and Cyprus. The Community also allows certain developing countries to become "associates". The Rome Treaty provided for links between the European Community and the colonies and other dependencies in Africa and elsewhere of France, Belgium, Netherlands and Italy.

The Yaounde Convention

After 1958, however, nearly all the French and Belgian colonies in Africa became independent, and all of them, except Guinea, accepted association with the Community under the famous Yaounde Convention signed in 1963 and renewed in 1969. The 18 signatories of the Yaounde Convention are: Burundi, Cameroon, Central African Republic, Chad, Congo (Brazzaville), Zaire (then Congo-Kinshasa), Dahomey, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Niger, Rwanda, Senegal, Somalia, Togo and Upper Volta. These countries constituted the former French West Africa, Belgian Congo and Madagascar, and their total population is about 70 million. In 1973 they were joined by Mauritius making the associates 19 in number.

The association provides for the gradual formation of a free trade area between the Community and the 19 associates, liberal aid from the Community to the 19 and co-operation through specially created political institutions. The cardinal feature in the trade between the Community and the associates is that all exports from the associates receive preferential treatment in the Community over exports from non-associates. Most products of the associates actually enter the Community duty free. The associates in turn are expected to give preferential treatment to their imports from the Community, they

have reduced the import duties and abolished quota restriction on these imports. The Community's imports from the associates rose by 107% from \$913 million in 1958 to \$1,889 million in 1970, while its exports to the eighteen rose rather slowly by 75% from \$713 million to \$1,249 million in the same period.

The associates are also given financial assistance through the European Development Fund set up in 1958, in addition to direct bilateral aid from individual Community countries. Funds are provided on soft terms for economic and social development in the associates. Thus under the first Yaounde Convention \$800 million was provided by the EDF: of this \$620 million or 78% were grants. Of the \$918 million granted to the eighteen under the Second Yaounde Convention \$748 million were grants. The relations between the Community and the associates, implementation and supervision of agreements, frequent contact and arbitration are ensured by an elaborate institutional framework consisting of an Association Council of Ministers, Association Committee, Parliamentary Conference and Arbitration Court.

The Arusha Agreement

Three other African countries which were not former colonies of member countries, viz Kenya, Uganda and Tanzania, were offered a different type of association in 1968 under the Arusha Agreement. This agreement provides for mutual trade preferences on a wide variety of products, but more limited in range than under the Yaounde Convention. Further, there is no provision for development aid from the Community as under Yaounde. In general terms it allows the three countries to export their products to the Community duty free except that quotas are applied to coffee, cloves and pineapples. In turn, they have agreed to grant tariff concessions on some 60 EEC products. The agreement is implemented and supervised by a Joint Association Council while a Joint Parliamentary Committee also meets periodically.

Apart from membership and association, the Community allows links with the Community to be maintained

and strengthened by means of Trade Agreements. These Trade Agreements generally involve mutual tariff reductions on industrial and agricultural products. The Rome Treaty obliged the Community to take over the special economic links that existed between some of its members and countries in the Mediterranean area. Thus Trade Agreements were signed with Morocco, Tunisia, Algeria, Lebanon, Egypt, Israel, Spain and Yugoslavia. In the case of Yugoslavia, the Community grants special treatment for its baby-beef exports to the Six. In addition to the Mediterranean countries, the Community has signed agreements with Iran, India and some Latin American countries granting them special concessions for specific exports to the Six. While the Eastern European Socialist countries, except Yugoslavia, were hostile to the Community at the beginning and attacked it as a "capitalist plot" they have softened their attitude in recent years and some of them have already had unofficial talks with a view to closer relations. China, on the other hand, supports the Community and plans to have direct dealings.

BRITAIN AND THE EEC

Britain emerged from the Second World War undefeated, with her economy suffering less damage than other European countries, one of the Big Three Powers and her national institutions were regarded as vindicated and strengthened. Few Britons in the decade after the war, saw a need to surrender any elements of British sovereignty to Europe. Elsewhere in Western and Northern Europe, Sweden, Switzerland and Ireland had remained neutral during the war, and were determined to maintain their neutrality. Denmark and Norway, though both had been occupied during the War, had strong links with Britain and Sweden. Towards the end of the 1950s, however, Britain was realising the advantages of participating closely in European economic integration. The worsening economic problems, balance of payments difficulties, grant of independence to colonies and loss of influence in world councils were factors which changed the situation. It was then thought that the European countries which did not become members of the European Community should join with the Community in estab-

lishing a wider European free trade area. This plan, however, lacked general agreement. Then Britain and some other countries which had not joined the Community—Sweden, Denmark, Norway, Switzerland, Austria, Portugal and Iceland—"The Eight" established the European Free Trade Association (EFTA) with the objective of establishing industrial free trade between the members and removal of trade barriers and the promotion of closer economic co-operation between all the members of the OEEC (succeeded in 1961 by the OECD) including members of the Community. It was also recognised that some members of EFTA might eventually wish to join and others to see closer trading arrangements with the Community.

The vigorous economic growth of the Community as compared to her own lagging economy beset by recurring balance of payments crises led Britain to investigate membership of the Community in 1961. France, however, decided that Britain was not ready to assume full membership responsibility and ended the negotiations abruptly in 1963. Thereafter in 1967, Britain under Labour Government made its first formal application for membership but this failed to evoke a favourable response from the Community. After the retirement and subsequent death of Charles de Gaulle and the successful 1969 "Summit" meeting of political leaders of the Six in the Hague, negotiations began in earnest in June 1971 and the United Kingdom, Ireland and Denmark became members of the Community on January 1, 1973.

The contrast between the Community and Britain had become more marked over the years since 1961. By 1969 the Community countries had rates of growth of gross national product per head of population or of private consumption per head, about twice as great as Britain's. In the period 1959-69 the Six devoted 24% of their GNP to investment compared to Britain's 17%. Further, in this period the Community earned a surplus in the current account and maintained a strong balance of payments position while Britain had a cumulative deficit and a weak position. In 1958 average earnings in Britain were similar to those in

France, Germany, Belgium and the Netherlands and over half as high as those in Italy. By 1969 average earnings in Italy had caught up with British earnings while those in other Community countries were between a quarter and a half higher on the average than Britain's. Britain had thus fallen behind the Community countries. The attraction of the Community to Britain in this context as the British application for membership in 1967 emphasized was "the long-term potential for Europe and therefore for Britain of the creation of a single market approaching 300 million people, with all the scope and incentive which this will provide for British industry and of the enormous possibilities which an integrated strategy for technology on a freely continental scale can create".

The Commonwealth, in Britain's view, could not offer comparable opportunities. The White Paper "The United Kingdom and the European Communities" refers to this subject as follows:—

"The member countries of the Commonwealth are widely scattered in different regions of the world and differ widely in their political ideas and economic development. With the attainment of independence, their political and economic relations with the United Kingdom in particular have greatly changed and are still changing. They have developed and are still developing with other countries' trade and investment arrangements which accord with the requirements of their basic geographical and economic circumstances. The United Kingdom's share of the trade of the Commonwealth has declined sharply over the last decade. In absolute terms United Kingdom exports to the Commonwealth have grown only slowly whilst our exports to the EEC have expanded much more rapidly, and in 1970 exceeded our exports to the whole of the Commonwealth. For many Commonwealth countries, too, the European Community increasingly appears as a more attractive trading partner than the United Kingdom. It is significant that the East African Commonwealth countries have now given the Community trade preferences over us".

The decision to join the Community was, therefore, logical. The White Paper states:—

"Our geographical, military, political, economic and social circumstances are so similar to those of the Six, and our objectives so much in common, that it is in our best interest to join forces with them in the creation of a wider European Community of free nations, whose joint strength and influence on the world can be so much greater than that of its individual members. If we remained outside the Community, we should have to maintain

our national interests and develop our national resources on a narrower base. No doubt we could do this; but the task of doing so would impose progressively heavier burdens on us, and would become progressively more difficult, as European political and economic unity proceeded without us in a neighbouring Community several times our size".

The European Community of the "Nine" is the world's largest trading "power". In 1971 the Nine imported goods to the value of £64 billion or 24.3 per cent. of world imports. The imports of USA by contrast were \$46 billion or 16.5% of world imports. The exports of the Nine in that year were \$63 billion or 27.6% of world exports; those of USA were \$44 billion or 17% of world exports. It is also relevant to note that Japan's share in world trade is only 8%.

The membership of the Community enjoins Britain to adopt the Common External Tariff of the Community and to eliminate all tariffs on trade between her and the Six. These, however, are to be carried out in four stages to be completed by July 1, 1977 as shown below:—

Adoption of CET by UK		Cumulative movement towards adoption of CET	
Date	%		%
Apr. 1, 1973	...—	...	—
Jan. 1, 1974	...40	...	40
Jan. 1, 1975	...20	...	60
Jan. 1, 1976	...20	...	80
July 1, 1977	...20	...	100

The implication of the adoption of the CET by Britain is that those Commonwealth countries which are not associates and which enjoy free entry to the British market will have the CET applied to their exports gradually. To those countries not having a preferential position and paying the British tariff it will mean some advantage as the CET in general is lower than the British tariff. The phased out adoption of the CET over 4½ years, however, provides some time for adjustment for the non-associable Commonwealth countries.

The other important aspect of Britain's entry to the Community is the offer of association status to all British dependent territories other than Gibraltar and Hong Kong and all independent Commonwealth developing countries with the exception of those in Asia. Thus 21 independent Commonwealth countries, main-

ly in Africa, the Caribbean and the Pacific, were offered three options: association *a la Yaounde*, limited association *a la Arusha* or Commercial Agreement; and they were required to make a decision by January 1975. These countries are:—

Bahamas, Barbados, Botswana, Fiji, Gambia, Ghana, Grenada, Guyana, Jamaica, Kenya, Lesotho, Malawi, Nigeria, Sierra Leone, Swaziland, Tanzania, Trinidad and Tobago, Tonga, Uganda, Western Samoa and Zambia.

Britain also secured from the Community special concessions for New Zealand's exports of dairy products which constitute 15% of her export earnings and of which Britain alone buys 80%. New Zealand is assured of a guaranteed export quantity at a guaranteed price for her exports of dairy products to the Community for five years. The Community has also undertaken to safeguard the interests of sugar exporting countries who are members of the Commonwealth sugar agreement. Nearly all these countries, except India, will also be associates of the Community.

The associables joined forces with the existing associates to form the African, Caribbean and Pacific countries (or ACP); this group consisted of 46 members—19 associates, 21 associables mentioned earlier plus 6 others who were subsequently offered association: Ethiopia, Guinea, Eastern Guinea, Guinea (Bissau), Liberia and Sudan. (Angola and Mozambique could join when their independence was completed). The Yaounde Convention was due for re-negotiation by January 1975 and hence it was agreed that both associables and associates must join forces to negotiate for the best possible terms and conditions with the Community in the new Association Agreement. These negotiations took 18 months and were concluded in February 1975; a new Convention far wider in scope than the Yaounde was signed at Lome in Togo, and is called the Lome Convention.

The Lome Convention

Under the Lome Convention, the ACP countries enjoy duty free entry for all industrial exports (local origin

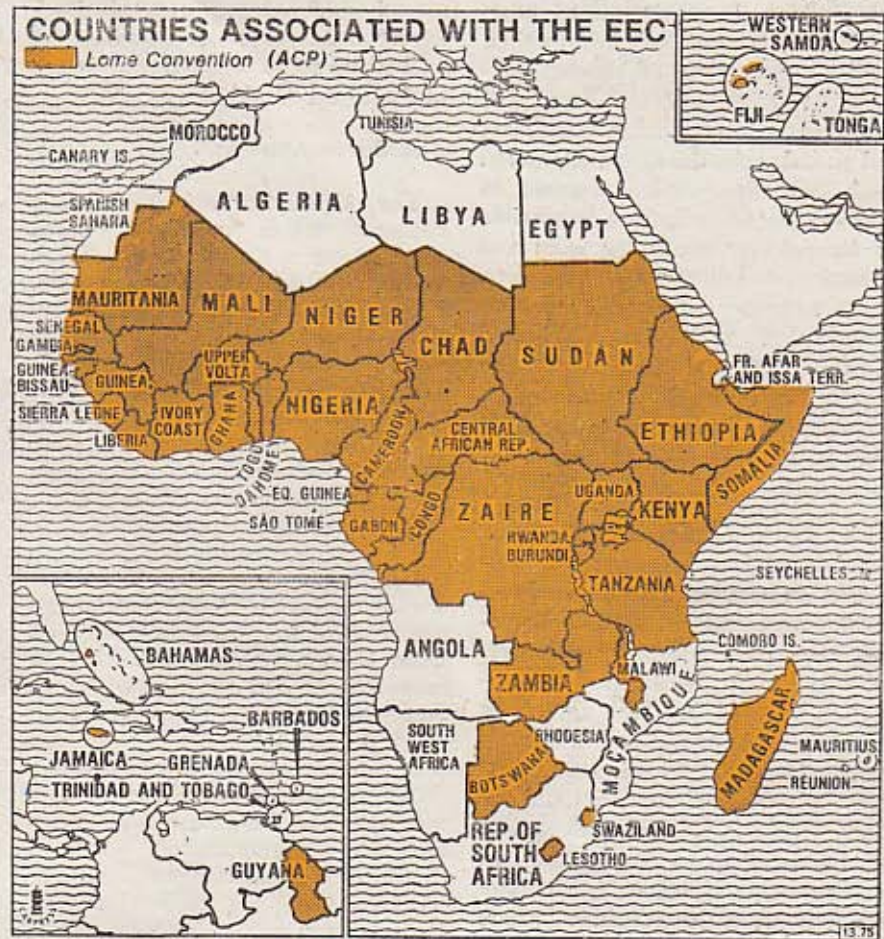
or value-added content being 50% of the total value) to the EEC. In the case of agricultural exports, they enjoy duty free access for about 96 per cent of their products while the remainder enjoys a margin of preference over third countries. The ACP countries had right from the beginning made it clear that they were not prepared to accord any reciprocity for the trade concessions granted by the EEC. Thus, under the new Convention, they will only apply equal treatment to imports from and exports to the EEC not less favourable than applied to imports from and exports to third countries. This not only ensures that there will be no discrimination by the ACP countries against imports from the EEC but also that the EEC would not suffer from discrimination with regard to access to raw materials from the ACP countries.

The European Development Fund under which the associates of the former Yaounde Convention received financial assistance from the Community has been substantially increased. The Yaounde Convention had provided a fund of 935 million units of account (one unit of account equals US \$ 1.35) for a period of 5 years ending December 1974. The new EDF amounts to 3.39 billion units of account for 6 years. The EDF consists of 2,625 million units of account: 2,100 million in non-repayable subsidies, 430 million loans on special conditions (40 years at 1%) and 95 million risk capital; in addition there is 375 million for the Stabex Fund and 390 million in loans from the European Investment Bank.

Stabilisation of Export Earnings

Perhaps the most important feature of the Lome Convention is the establishment by the EEC of a Stabex Fund, initially of 375 million units of account to compensate losses in export earnings by ACP countries resulting from a fall in prices of their commodity exports to the Community. This scheme covers cocoa, coffee, cotton, copra, coconut, oil cakes, ground nut, ground nut oil, palm oil, hides and skins, wood products, bananas, tea, raw sisal and iron ore; the list is subject to revision after 12 months. The principle is that a country will receive compensation if its export earnings

The forty-six countries of the Lome Convention at a glance



Source: European Community

from any commodity falls more than 6.4% below the average of the previous 4 years and also provided that the export earnings of the commodity are at least 7.5% of the total export earnings. The cut-off point for the 24 least developed, land-locked or inland countries is, however, 2.5%. These financial transfers are interest-free repayable by all except the 24 most deprived countries. Although the Stabex Fund is not a commodity agreement in the normal sense of the word, it is similar to the multi-commodity agreement proposed by the UNCTAD. Like commodity agreements, the Stabex ensures stability in export earnings. Furthermore, it covers almost half the developing countries of the world.

Special reciprocal arrangements for sugar exports of the ACP countries have been written into a separate protocol. The EEC guarantees to purchase a minimum of 1.4 million

tons of sugar per year and the ACP countries agree to supply this quantity. The EEC also guarantees a minimum price which is subject to annual review. The minimum price is the intervention price for sugar for the Community producers under the Common Agricultural Policy. Under normal conditions the intervention price in the U.K. should now be around £150 per ton. Under the special circumstances prevailing in the sugar market in 1974 and early 1975, the U.K. has agreed to buy from Commonwealth sugar producers at £260 per ton c.i.f. during the first year. The advantage to the ACP countries under the sugar agreement is that it is for a period of 5-7 years, and the Community has undertaken to pay a minimum guaranteed price which the Community pays its own sugar producers. This means that there is an indexed minimum price as long as the Protocol is in force.

The new Convention also provides for industrial co-operation comprising exchanges of information, studies, promotion of contact between businesses under the auspices of an industrial co-operation committee and an industrial development centre. Each ACP State will endeavour to give as clear an indication as possible of its priority areas for industrial operation. It will also take such steps as are necessary to provide effective co-operation with the EEC and Member States and their firms "who comply with the development programmes and priorities of the host ACP State".

The Lome Convention has been hailed as one inaugurating a new type of relation between industrialised and developing countries. Mr. C. Cheysson, responsible for co-operation on development in the European Commission declared that "this agreement is unique in the world and in history; for the first time, an agreement between industrialised countries and the Third World is reached with perfect equality between the two parties, an equality made possible by the fact that it is an entire continent which negotiated."

A European Commonwealth

The 'Lome' Treaty inaugurates a new "European Commonwealth" mainly of Europe and Africa bound together by a network of trade concessions, economic assistance, co-operation and other facilities which are not available to other developing countries. This special relationship between Europe and Africa has not been sympathetically viewed by the U.S.A. on the grounds of discrimination amongst developing countries and special privileges to the EEC. It is U.S.A.'s view that the concessions given to ACP countries should progressively be incorporated into the GSP (Generalised Scheme of Preferences). The special relationship with the ACP countries is in the view of the EEC a model for developed-developing country relationships which others should eventually

adopt. The EEC is not prepared to extend these concessions to all developing countries as its resources are inadequate to shoulder the problems of the Third World as a whole.

The Seven Outside

The Commonwealth developing countries which were not offered associate status on Britain's accession to the EEC are only those in Asia, India, Pakistan, Bangladesh, Malaysia, Singapore, Sri Lanka and Hong Kong, called "The Seven Outside". They were offered neither full association *a la Yaounde* nor partial association *a la Arusha*. They were originally not even offered special trade agreements *a la Iran, Egypt, Yugoslavia &c.*

Britain, to these Asian Commonwealth countries, is still the largest single market. Britain's imports from Commonwealth Asia in 1970 amounted to \$916 million of which \$327 million or 36% were 'agricultural goods' (BTN 1-24) and \$589 million or 64% manufactures (BTN 25-99). Hong Kong accounted for half of these imports of manufactures. Approximately one-third of the total imports from Commonwealth Asia (\$304 million) entered Britain duty free at most-favoured-nation rates and, therefore, had no tariff preferences over competing imports from any other countries, e.g. tea, rubber, jute and hardwoods. With the introduction of the Generalised Scheme of Preferences by Britain in 1972, Commonwealth Asia lost preferences on a further \$255 million or 28% of their exports to Britain; they now shared these preferences with all developing countries. Thus the balance imports from Commonwealth Asia which benefitted from the remaining Commonwealth Preferences after the introduction of the British Generalised Scheme of Preferences amounted to \$557 million or 39% of the total imports. It was on these products that Commonwealth Asia was expected to suffer loss of preference on Britain adopting the Common External Tariff of the EEC. The value of these preferences has been estimated at \$34 million.

—(Peter Tulloch—The Seven Outside, Overseas Development Institute, 1973, p. 13).

The effect of the Community's preferential trading arrangements with associates and other selected countries was trade discrimination against Commonwealth Asia. Peter Tulloch summarises this position in his book "The Seven Outside" as follows:—

"As non-associate developing countries, Commonwealth Asian States will move during the next four years from a situation where their products still receive a certain amount of preferential treatment over non-Commonwealth competitors in the British market to one where they face substantial discrimination, in Britain, in favour of other EEC countries, EFTA members (on industrial goods including textiles, leather goods, clothing, electronics), existing Community associates and any new Commonwealth associates; in the market of the Six, in favour of new members, EFTA partners and new associates; and in the EFTA 'rump' in favour of the members of the enlarged community".

The EEC considered the Generalised Scheme of Preferences as the main instrument for dealing with the Commonwealth Asian countries. This was hardly a compensation as it was extended by the Nine to all developing countries equally. The enlarged Community, however, was desirous of expanding its trade with Commonwealth Asia and expressed its willingness to examine with these countries such problems as may arise in the field of trade after the enlargement of the EEC with a view to seeking appropriate solutions. This intent was incorporated in the Joint Declaration of Intent on the Development of Trade relations with Ceylon, India, Malaysia, Pakistan and Singapore in the Treaty of Accession by Britain as follows:—

"Inspired by the will to extend and strengthen the trade relations with the developing independent Commonwealth countries in Asia (Ceylon, India, Malaysia, Pakistan and Singapore), the European Economic Community is ready, from the date of accession, to examine with these countries such problems as may arise in the field of trade with a view to seeking appropriate solutions, taking into account the effect of the generalised tariff preference scheme and the situation of the other developing countries in the same geographical area".

Thus the general approach was to defer the consideration of the problems of Commonwealth Asia until after the act of enlargement of the EEC.

SRI LANKA

Implications of UK's Entry to EEC

The United Kingdom was Sri Lanka's largest single trading partner and her decision to join the EEC was bound to have certain implications on Sri Lanka's international trade. In 1972, Sri Lanka's exports to the U.K. amounted to Rs. 265m. or 13.3% of her total exports and to the Six Rs. 180m. or 9%. Thus exports to the U.K. exceeded those to the Six. Sri Lanka's exports to the Nine including Denmark and Ireland amounted to Rs. 461m. or 23% of her total exports. The enlarged EEC accounting for about 25% of the country's exports is the largest market for Sri Lanka. The table below shows the latest figures of Sri Lanka's trade with the enlarged Community:—

SRI LANKA'S TRADE WITH ENLARGED EEC—1974

Country	Exports		Imports		As % of total	
	Rs. m.	to Sri Lanka	Rs. m.	from Sri Lanka	Exports to Sri Lanka	Imports from Sri Lanka
Belgium	...	29	...	35	0.8	3.9
Denmark	...	12	...	48	0.5	5.3
France	...	48	...	346	1.4	7.6
Germany, F.R.	...	197	...	199	5.7	23.4
Ireland	...	11	...	14	0.3	1.6
Italy	...	93	...	59	2.7	11.0
Luxemburg	...	n.a.	...	n.a.	—	—
Netherlands	...	99	...	24	2.9	11.7
U.K.	...	354	...	170	10.3	42.0
Total EEC	...	842	...	896	24.4	100.0

Sri Lanka's domestic exports to the enlarged Community were Rs. 842 million in 1974 or 24.4 per cent of the total exports of the country, and Sri Lanka's imports from the enlarged Community in that year amounted to Rs. 896 million or 19.7% of her total imports. The U.K. is the largest single country market taking 10.3 per cent of Sri Lanka's total exports or 42 per cent of Sri Lanka's exports to the enlarged EEC. The second largest customer in the Community is Germany with 23.4 per cent of the exports; Netherlands and Italy are the next important customers—11.7% and 11% of the exports to the Community. The importance of the Community market is further illustrated by the high proportion of certain exports of Sri Lanka sold to the enlarged Community:—

Proportion of Selected Exports to the Enlarged EEC

Commodity	% of total exports to all countries of the Community
Desiccated coconut	60.5
Tea in bulk	24.7
Instant Tea	77.9
Pepper	28.4
Cinnamon chips	53.0
Cloves	27.3
Coconut oil in bulk	41.6
Glycerol lyes	100.0
Cocoa	38.8
Tobacco	99.9
Citronella oil	63.3
Cinnamon bark oil	80.8
Cinnamon leaf oil	60.2
Essential oils—other	78.5
Natural rubber	17.2
Leather—bovine	97.4
Coconut shell charcoal	52.5
Coir fibre	52.5
Footwear	72.0

In the case of imports, the largest supplier in the enlarged EEC is France which in 1974 supplied 38.6% of Sri Lanka's imports from the Com-

The main imports from the EEC, as the table below shows, are wheat flour, milk and cream, machinery and equipment, transport equipment, iron and steel products and chemical products. The largest supplier of wheat flour is France.

So long as the U.K. remained outside the EEC, Sri Lanka was not unduly perturbed regarding her trade with the EEC. The decision of the U.K. to join the EEC, however, changed the picture and required Sri Lanka to make a re-appraisal of her future relations with the EEC. As the enlarged EEC was the largest single export market, as shown above, it was imperative for Sri Lanka to ensure that the policies of the EEC would not impair her position as an exporter to the EEC. In fact it was necessary that the EEC took appropriate steps not only to maintain but also to increase her imports from Sri Lanka.

Dangers of EEC Import Tariffs

The main problem as far as Sri Lanka was concerned was the import tariff on her exports to the EEC. Britain was a sheltered market. Most of Sri Lanka's exports entered the British market duty-free or at low tariff; in addition, they enjoyed a preferential tariff against her non-Commonwealth competitors although this preference, as shown elsewhere, was not considerably attenuated by the British GSP implemented in 1972. This situation was now to change as follows:—

- (i) The U.K. was adopting the Common External Tariff of the EEC in stages—1972-77. This meant that Sri Lanka's exports which were mainly duty-free were to be subject to an import duty in the British market. For instance, coconut oil which entered Britain duty-free formerly would now have to pay a tariff of 5 to 15% according to usage in the EEC; cinna-

community. France was followed by the Federal Republic of Germany with 22.2 per cent. The U.K. supplied only 19 per cent of Sri Lanka's imports from the enlarged Community and 3.7 per cent of Sri Lanka's imports from all countries. Thus the U.K. is more important to Sri Lanka as an export market than a supplier of imports. The major imports of Sri Lanka from the Community is shown in the following table:—

SRI LANKA'S IMPORTS FROM ENLARGED EEC—1974

Commodity	Value of Imports Rs. m.	As % of total imports from all countries
Wheat flour	427	50.0
Milk and cream	50	75.4
Mineral products, e.g. fertiliser	57	25.0
Chemical products, e.g. synthetic yarn	53	46.0
Iron and steel products	21	57.0
Machinery, equipment	40	48.0
Transport equipment and spare-parts	24	66.8
Postage stamps	3	89.2

mon, cloves, pepper, cardamoms, nutmeg, canned fruits, fruit juice, cut flowers, fish, crustaceans, packeted tea and instant tea which all had duty-free access to the British market would now have to pay tariff varying from 6% to 32% according to the commodity.

- (ii) With the adoption of the Common External Tariff, the U.K. was bound to extend preference to the EEC Associates. This meant that not only had Sri Lanka to pay tariff on her exports which were hitherto duty-free in the British market but also that her competing associated territories were to be given tariff preference against her. For instance, coconut oil from Sri Lanka which entered the British market duty-free formerly had not only to pay now a tariff of 5 to 15% but it had to compete with coconut oil from the non-Commonwealth Associates which had formerly paid 15% tariff in the U.K. but were now given duty-free access. Thus the loss of preference in the British market for Sri Lanka's coconut oil was in the region of 20 to 30% as compared to non-Commonwealth associate countries.
- (iii) While all Commonwealth countries had to compete on equal terms in the EEC (other than Britain) in the past, there was now discrimination against those Commonwealth countries which were not granted associate status—they had to pay the CET while the associates enjoyed concessionary tariff. Thus the former Commonwealth countries who became associates had a competitive edge on countries like Sri Lanka in the European market of the EEC and thereby would threaten Sri Lanka's share of the continental market.

Trading Problems with EEC

Sri Lanka's main fear was the possible diminution of the British market as a result of loss of preference on her exports. For over 150 years, on account of close political

and economic relations with Britain, Sri Lanka's exports had been almost completely geared to the requirements of the British market. It would therefore require considerable investment of resources and several years to change effectively the pattern of the country's export production and the direction of trade if Sri Lanka is compelled to reduce her dependence on the British market. Sri Lanka also noted the impressive economic development and expansion of international trade of the EEC and realised the vast potential for her exports in the prosperous EEC market. It was therefore Sri Lanka's main objective to retain the British market and at the same time increase her exports to the larger market of the EEC as a whole.

It was the time that the two principal exports of Sri Lanka—tea (in bulk) and natural rubber—would continue to enter the enlarged EEC duty-free, but there were a number of other exports, small in value but increasing from year to year, referred to above, against which there was discrimination as compared to the associates. The sheltered market where Sri Lanka enjoyed preferential access was to give way to an open market where some of Sri Lanka's competitors had preferential access. Apart from this, the enlarged EEC provided the best market for Sri Lanka's new industrial products and non-traditional exports and it was essential that Sri Lanka should have unrestricted access to this market. This meant that some sort of arrangement or understanding was necessary to consolidate and expand the trade relations with the EEC.

Although those Commonwealth countries in Africa, Caribbean and the Pacific, heavily dependent on the export of primary products like Sri Lanka, were offered the choice of three alternatives to safeguard their interests, viz. full association under a renewed Yaounde; limited association under article 238 of the Treaty of Rome; or an agreement to facilitate and expand trade, no such options were offered by the EEC to Sri Lanka. Perhaps the underlying assumption was that Sri Lanka and Commonwealth countries in Asia were industrially more developed than other Commonwealth countries in Africa, and that therefore they could benefit from the GSP without additional

trade concessions. It has to be admitted that the other Commonwealth countries in Asia have already had considerable experience in the export of manufactures and semi-manufactures and are indeed in the forefront of the developing countries which export manufactures to the developed countries. For example, India exported, in 1969, manufactures (excluding petroleum and unworked non-ferrous metals) to the value of \$547 million or 30% of her total exports; Pakistan \$197m. or 29%; Malaysia \$130m. or 8% and Singapore \$ 60m. or 4%. Sri Lanka, however, was not so well developed industrially; in 1969 her exports of manufactures were only \$3 m. or less than 1% of her total exports. Clearly she was not in a position to exploit the GSP in its original form.

The Joint Declaration of Intent indicates that the situation of the other developing countries in the same geographical area will be taken into account by the EEC in the examination of problems that may arise for Sri Lanka and other Asian Commonwealth countries in the field of trade. Among these countries are a number which already export manufactures and semi-manufactures to the developed countries and which together with other independent Commonwealth countries of Asia will be in a more favourable situation than Sri Lanka consequent on Britain's accession to the EEC and the introduction of the GSP. Some of these countries which exported manufactures in excess of \$10 m. in 1969 were: Hong Kong \$1,484 m., Taiwan \$570 m., South Korea \$365 m., Philippines \$138 m., Iran \$133 m., Thailand \$ 30 m., Indonesia \$ 22m. and Burma \$12 m. Another interesting feature was that six of the independent Commonwealth countries to which a choice of alternatives for future relationships of a preferential character had been offered, exported manufactures, exceeding \$10 m. in 1969: Ghana \$ 113 m., Nigeria \$38, Trinidad and Tobago \$36 m., Jamaica \$30 m., Kenya \$ 18 m. and Tanzania \$13 m.

In these circumstances, the assumption that the GSP would solve the problems of Commonwealth Asia was not valid in the case of Sri Lanka. Nearly all the Commonwealth countries in Asia, the majority of non-

Commonwealth countries in Asia and even some other developing countries who had been offered association, were in a better position to benefit from the GSP than Sri Lanka which is still a primary producer. On the contrary, with the introduction of GSP by Britain and Canada, Sri Lanka lost valuable trade preferences in these markets for which she failed to receive adequate compensatory benefit from the EEC.

The impending situation was serious enough for, Sri Lanka to bring to the notice of the EEC her trading problems with a view to seeking appropriate solutions for them. Thus at the end of October 1972, the Government of Sri Lanka through a special envoy presented an *Aide Memoire* to the European Commission outlining her trading problems (as indicated in the paragraphs above) and hoping that the community would "agree to provide Sri Lanka special facilities in the markets of the Community by means of appropriate arrangements in the tariff and non-tariff fields, as well as other measures designed to promote the development and diversification of Sri Lanka's trade with the enlarged Community". This was followed by the appointment of a resident ambassador to the Community in June 1973.

Most Urgent Problem

The most urgent problem for Sri Lanka was thus the loss of trade preferences in the British market and the need to mitigate the adverse impact of this on her trade with the EEC. The second was the more general question of establishing suitable machinery for dealing with Sri Lanka's long-term relations with the EEC. In regard to the former, the general approach of the Community was against any preferential trade arrangement, but was to look at each of the specific commodities that were of concern to Sri Lanka and to consider what solutions were possible in terms of the Generalised Scheme of Preferences (in accordance with the Joint Declaration of Intent). The EEC was of the view that the alignment of Britain's tariff with the Common External tariff and the harmonisation of Britain's GSP with that of the community in January 1974 should be made an opportunity to revise and liberalise the Commu-

nity's GSP so as to provide some relief to the trade problems of non-associates like Sri Lanka. On representations made by Asian Commonwealth countries, the Community affirmed that the Joint Declaration of Intent was an on-going commitment to be reviewed constantly. This meant that the Community regarded the relief to be provided in 1974 as an initial and not a final step.

The benefits to Sri Lanka from the liberalisation of the Community's GSP in 1974 and 1975 have already been fully discussed. It was shown that with these concessions, most of the problems that Sri Lanka would have encountered as a result of Britain's accession to the EEC have been either removed or mitigated, and 95 per cent of Sri Lanka's exports to the enlarged EEC now enjoy duty-free treatment. It is therefore on the balance 5 per cent of Sri Lanka's exports that further action through the GSP is required. It is a fact that any tariff concession through the GSP clashes with the preferential treatment given to the associates and the Community finds it difficult to liberalise further without creating opposition from the associates. The progressive and pragmatic approach of the Community to the GSP, as demonstrated in recent years, and the community's policy of balanced development between the system of generalised preferences and the policy of association, however, seem to indicate that the Community will consistently improve and extend the GSP to meet most of Sri Lanka's requirements.

The second question, as referred to earlier, was the one concerning Sri Lanka's long-term relations with the enlarged EEC. It was not in the trading interests of Sri Lanka to stand as a complete outsider to the EEC; it was not enough for her to receive benefits only through the Community's GSP. It was necessary to make the Community take serious notice of Sri Lanka and if possible formalise the mutual trade relations through some institutional machinery. Britain's membership of the EEC, as shown above, on the one hand, meant a certain weakening in our traditional trade links with Britain. The Community's association policy, which excludes Sri Lanka, on the other hand, created a further lacuna. There

was thus a compelling need on our part to seek to establish better machinery than existed hitherto for dealing with Sri Lanka's trade relations with the Community and for strengthening our long-term economic relations with it. This was the main task in the negotiations in 1973 between Sri Lanka and the Community.

The Commercial Co-operation Agreement

There was a new factor which strengthened Sri Lanka's case for special recognition: this was the conclusion of a Commercial Co-operation Agreement between the Community and India at the end of 1973. This agreement institutionalised the relationship between the Community and India by setting up machinery in the form of a Joint Commission to meet at stipulated intervals for the purpose of reviewing their mutual trade problems. It was regarded as a "framework agreement" which can provide for the strengthening of relationships between the two parties in the future. In addition to this agreement, India also signed special agreements on jute and coir manufactures providing for a progressive relaxation of tariffs on these items.

The Community was, however, not prepared at the beginning to proliferate agreements *a la India*. India was regarded as a special case; the Co-operation Agreement with her was justified on the grounds of her large size and the diversified nature of the economy. But once the door had been opened for special relationships, it was difficult to close it in the face of others knocking on the door. A precedent had been created. Apart from the active canvassing by Sri Lanka, Pakistan was pressing for a commercial co-operation agreement similar to the one with India and Malaysia and Singapore were negotiating in a bloc with ASEAN for a bilateral agreement. It was difficult, therefore, to refuse to Sri Lanka what had been offered to India and what was being considered to be offered to Pakistan. The Community also had by now realised that the many developing countries were unable to utilise fully the Community's GSP to increase their exports, and dismantling of tariff barriers was not in itself a sufficient incentive for the development of trade. The producers and exporters of developing countries,

it was recognised, needed help both to find markets in Europe and to adjust their production to these markets. The decision to accede to India's request for a commercial co-operation agreement was based on the Community's commitment in the Joint Declaration of Intent, the declining volume of India's trade in spite of efforts to improve it through tariff concessions and the realisation that more positive assistance would be needed to reverse this trend. These arguments applied equally to the requests from Sri Lanka, Pakistan and Bangladesh. The Community thus came round to the view that in order to make a substantial contribution to progress in these countries, trade co-operation going beyond mere tariff concessions was called for. Negotiations were held in November-December 1974 in Brussels between the Commission of the European Communities and Sri Lanka to finalise the Commercial Co-operation Agreement and it was formally signed in May 1975.

The Sri Lanka EEC Agreement

The Commercial Co-operation Agreement between the European Economic Community and Sri Lanka is very similar to that of the Community with India. The object of the agreement is to develop, deepen and diversify their commercial and economic relations on the basis of comparative advantage and mutual benefit so as to contribute to their economic and social progress and to the improvement of the balance of their mutual trade to as high a level as possible. The main features of the agreement are as follows:—

- (i) *The two parties grant to each other most-favoured-nation treatment and undertake to promote the development and diversification of their mutual trade to the highest possible level. They grant to each other the highest degree of liberalisation of imports and exports which they apply to third countries in general and shall endeavour to provide maximum facilities compatible with their respective policies and obligations with regard to goods and services and interest to either party (in the Indian agreement only products are covered).*

- (ii) *The EEC abandoned its original intention of asking Sri Lanka for an explicit commitment to grant the EEC non-discriminatory access to natural resources in view of Sri Lanka's opinion that it could be considered to impose a limitation on our concept of territorial sovereignty as embodied in our constitution and further that the commitment in question would simply have constituted an interpretational declaration of the provision already laid down according to which the two parties exchange the greatest degree of liberalisation for imports and exports, and also that the commitment should have been mutual. Provision is made for economic and commercial co-operation.*

- (iii) *A Joint Commission is established comprising representatives of both parties and it will meet once annually or more frequently by common agreement. It is the Joint Commission's task to ensure proper functioning of the Agreement and achieving its objectives by:—*

- (a) *studying and devising ways of overcoming trade barriers;*
 (b) *endeavouring to find ways of encouraging the development of economies and economic co-operation so as to develop and diversify trade;*
 (c) *facilitating exchanges of information and encouraging contacts to create favourable conditions for economic co-operation.*

- (iv) *The Agreement is for a period of five years and shall be extended from year to year if neither party wants it terminated.*

The Commercial Co-operation Agreement also includes four annexes. The first annexe is a Joint Declaration concerning the Joint Commission. This provides for the two parties in the Joint Commission to transmit their recommendations to their respective authorities for action and emphasises that the Joint Commission should, when making recommendations, have due regard to Sri Lanka's development plans and to the progress of economic, industrial, social, environmental and scientific policies

of the Community as well as to the level of economic development of the two parties.

In the second annexe the Community agrees to bind the tariff reductions and suspensions already applied autonomously in respect of the products of particular interest to Sri Lanka as follows:—

1. Desiccated coconut	...	2%
2. Tea—in bulk	...	free
Tea—in packets	...	5%
3. Pepper for industrial use	...	free
4. Cinnamon: ground	...	10%
Cinnamon: other	...	8%
5. Cardamoms: ground	...	free
6. Bovine cattle leather: East India Kip.	...	free

In the case of four items: tea, pepper, cardamoms and East India Kip, the Community had given tariff bindings to India on the same basis. These tariff concessions will remain valid throughout the duration of the agreement.

The third and the fourth annexes are Declarations of the EEC and Sri Lanka respectively concerning tariff adjustments. The Community is prepared, in the course of its endeavours to improve the Generalised System of Preferences, to take into account the interests of Sri Lanka in the extension and strengthening of its trade relations with the Community. The Community is also prepared to examine in the Joint Commission the possibilities for further tariff adjustments on Sri Lanka's exports to promote the development of trade between Sri Lanka and the Community. Sri Lanka is prepared on the other hand, to discuss the Community's proposals with regard to tariff adjustments by Sri Lanka bearing on the development of trade between the two parties taking into consideration Sri Lanka's development needs. This section is an improvement over the Indian agreement in that whereas the Indian agreement provides for a once-for-all examination of tariff concessions sought from the EEC, the Sri Lanka agreement provides for a continuous review and a readiness on the part of the Community to examine Sri Lanka's trade problems, from time to time, with a view to finding appropriate solutions.

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