Trade and Transportation Audit in Sri Lanka

Dr Janaka Wijayasiri, Suwendrani Jayaratne, Dharshani Premaratne
Institute of Policy Studies of Sri Lanka
29 September 2016
Outline

1. Background
2. Main Trade Routes & Trade Logistics Performance
3. TF - Recent Initiatives
4. Rationale & Objectives
5. Key Findings of the Study
6. Policy Implications
Background

- SL’s export performance has been unsatisfactory
  - Declining exports/GDP ratios (33% to 15% in 2000-2014) & trade/GDP (77% to 42%)
  - Vietnam & Bangladesh on par & behind Sri Lanka in 1990’s now ahead
    - Exports: Vietnam (US$ 120 billion); Bangladesh (US$ 24 billion); SL (US$ 10 billion)
  - Lackluster performance - ‘homegrown’; high trade related costs an underlying reason
Background

- Sri Lanka’s trade with SAARC has been volatile in past 5 years
  - Exports to SA - 7 % ; Imports from SA – 21%
  - Trade with India dominates; only 30% exports & 12% imports to other 7 SA’n countries
  - Constraints: complex customs processes, RoO criteria, lack of harmonization of standards.
  - 2 bilateral agreements: ILFTA & PSFTA

SL’s Top 10 Exports & Imports to SAARC

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Product (Export)</th>
<th>% of Total Exports to SAARC</th>
<th>HS Code</th>
<th>Product (Import)</th>
<th>% of Total Exports to SAARC</th>
</tr>
</thead>
<tbody>
<tr>
<td>2710</td>
<td>Petroleum oils, not crude</td>
<td>7.2</td>
<td>2710</td>
<td>Petroleum oils, not crude</td>
<td>15.4</td>
</tr>
<tr>
<td>0802</td>
<td>Nuts nes</td>
<td>6.3</td>
<td>2523</td>
<td>Cements, Portlands</td>
<td>8.1</td>
</tr>
<tr>
<td>0904</td>
<td>Pepper, peppers &amp; capsicum</td>
<td>5.2</td>
<td>1006</td>
<td>Rice</td>
<td>6.1</td>
</tr>
<tr>
<td>2309</td>
<td>Animal feed preparations, nes</td>
<td>4.1</td>
<td>8711</td>
<td>Motorcycles, side cars</td>
<td>4.7</td>
</tr>
<tr>
<td>6006</td>
<td>Fabrics, knitted or crocheted</td>
<td>3.4</td>
<td>3004</td>
<td>Medicament Mixtures</td>
<td>4.3</td>
</tr>
<tr>
<td>8544</td>
<td>Insulated wire/cable</td>
<td>3.3</td>
<td>8703</td>
<td>Cars</td>
<td>3.2</td>
</tr>
</tbody>
</table>
Main Trade Routes & Trade Logistics Performance

- Sri Lanka’s main international trade routes are via sea & air
  - Ports - 99% of freight; Airport – Less than 1%

- Colombo Port
  - Principal sea port (71 MTs cargo); Main focus: transshipment (over 75% of container throughput)
  - Performance of the ports sector has shown a marked improvement - major infrastructure drive
  - Ranked 33 of the top 50 world container ports by World Shipping Council
• **Bandaranaike International Airport**
  - Use of air freight relatively low but air cargo volume increased by 45% in 2009-2013
  - 60% of air cargo used for exports

• **Rail Transportation**
  - Utilization of rail transportation for goods transportation is minimal
  - Sri Lanka Railway’s (SLR) share in goods transportation - 2%

• **Road Transportation**
  - Total road network of 30,686 km’s - 4219km’s are Class A roads & 7,949 km’s are main roads
  - Road development given prominence by the government - Southern Expressway (links Western-Southern provinces; Colombo-Katunayake Expressway (connects country’s main international airport to the capital)
Main Trade Routes & Trade Logistics Performance

• Commendable in comparison to other SAN countries: rank improved from 85 (2014) to 69 (2015)
  • Export – 16 days (33.4 days in SA) ; Cost - US$ 560 (US$ 1923 in SA)
  • Import – 13 days (34.4 days) ; Cost – US$ 690 (US$ 2118 in SA)
  • Over 50% of time – document preparation

<table>
<thead>
<tr>
<th>Nature of Export/Import Procedure</th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Duration (days)</td>
<td>Cost (US$)</td>
</tr>
<tr>
<td>Documents preparation</td>
<td>9</td>
<td>135</td>
</tr>
<tr>
<td>Customs clearance and inspections</td>
<td>2</td>
<td>160</td>
</tr>
<tr>
<td>Ports and terminal handling</td>
<td>3</td>
<td>150</td>
</tr>
<tr>
<td>Inland transportation and handling</td>
<td>2</td>
<td>115</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>16</strong></td>
<td><strong>560</strong></td>
</tr>
</tbody>
</table>

TF - Recent Initiatives

• SL has undertaken key initiatives to facilitate trade and transport
  • Ratified the WTO TFA in May 2016
  • National Trade Facilitation Committee appointed – Chair (SLC)

• Key institutes: Sri Lanka Customs, DOC & SLPA (30 others)

• Sri Lanka Customs Paperless Export Clearance Initiation (2013)
  • Reduced document no’s from 12-16 docs 4-5 docs (exports)
  • Mandatory for exporters to submit the customs declaration (CUSDEC) electronically
    (i) e-warranting- warranting of the CUSDEC without submission of paper copy;
    (ii) one-time payment & e-payments can be made via banks currently linked to the system;
    (iii) SMS updates at different points of export process
  (iv) electronic submission of CDN and Shipping Note
  (v) establishment of Centralized Cargo Examination Facility
  (vi) Fast track clearing system – 240 traders
Methodology

• Survey - 121 stakeholders (Large: 50; Medium: 39; Small 29)
• 6 Key-Informant Interviews
• 2 Border Points – (i) Colombo Port (ii) Bandaranaike Airport

<table>
<thead>
<tr>
<th>Category</th>
<th>Border Point</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Colombo Port</td>
<td>Bandaranaike International Airport</td>
</tr>
<tr>
<td>Freight Forwarder/CHA</td>
<td>27</td>
<td>20</td>
</tr>
<tr>
<td>Exporters</td>
<td>22</td>
<td>5</td>
</tr>
<tr>
<td>Importers</td>
<td>30</td>
<td>2</td>
</tr>
<tr>
<td>Shipping Lines</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Road Carriers</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Airline Operators</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Board of Investment</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>SL Freight Forwarder’s Association</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Ceylon Shipper Council</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>91</td>
<td>30</td>
</tr>
</tbody>
</table>
Methodology cont.

- **Product Selection: HS 4-digit level**
  - Volume of trade
  - Availability of at least 20 companies that export/import relevant product to/from SA

<table>
<thead>
<tr>
<th></th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agriculture</strong></td>
<td>Pepper, pepper &amp; capsicum</td>
<td>Cane or beet sugar &amp; chemically pure sucrose, in solid form</td>
</tr>
<tr>
<td></td>
<td>(HS: 0904)</td>
<td>(HS: 1701)</td>
</tr>
<tr>
<td><strong>Non-Agriculture</strong></td>
<td>Insulated wire/cable</td>
<td>Cements, portland, aluminous, slag, super sulfate &amp; similar hydraulic</td>
</tr>
<tr>
<td></td>
<td>(HS: 8544)</td>
<td>(HS: 2523)</td>
</tr>
</tbody>
</table>

- Due to low response rates, additional exporters/importers were drawn from the same Chapter
Key Findings
Publication of Trade Related Rules & Regulations

- Website does not contain information on average release & clearance times
- Effectiveness of overall information available on the website can be rated as “average
- Information on website was not accurate or reliable which largely attributed to it not being regularly updated → refer tariff book

### Availability of Information

<table>
<thead>
<tr>
<th>Information Type</th>
<th>Yes</th>
<th>No</th>
<th>Do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import export procedures</td>
<td>83%</td>
<td>14%</td>
<td>5%</td>
</tr>
<tr>
<td>Changes in regulations</td>
<td>79%</td>
<td>14%</td>
<td>8%</td>
</tr>
<tr>
<td>Customs clearance procedures</td>
<td>72%</td>
<td>20%</td>
<td>8%</td>
</tr>
<tr>
<td>Applicable customs duties</td>
<td>72%</td>
<td>63%</td>
<td>15%</td>
</tr>
<tr>
<td>Applicable fees/charges</td>
<td>26%</td>
<td>28%</td>
<td>15%</td>
</tr>
</tbody>
</table>

### Effectiveness of Information

<table>
<thead>
<tr>
<th>Information Type</th>
<th>Very high</th>
<th>High</th>
<th>Average</th>
<th>Low</th>
<th>Very low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import export procedures</td>
<td>0%</td>
<td>14%</td>
<td>12%</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>Changes in regulations</td>
<td>21%</td>
<td>41%</td>
<td>22%</td>
<td>22%</td>
<td>11%</td>
</tr>
<tr>
<td>Customs clearance procedures</td>
<td>56%</td>
<td>49%</td>
<td>41%</td>
<td>41%</td>
<td>11%</td>
</tr>
<tr>
<td>Applicable customs duties</td>
<td>0%</td>
<td>12%</td>
<td>12%</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>Applicable fees/charges</td>
<td>18%</td>
<td>18%</td>
<td>18%</td>
<td>18%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: Survey
Inquiry Point

- 60% (73/121) – Aware of an inquiry point at the Customs
- No national level inquiry point

- Major concerns
  - Difficulty of accessing it (i.e. calls not being answered)
  - Inability & inefficiency of this service to address their queries.
Coordination between Border Management Agencies

- Revenue & Customs, Health Authority, Quarantine Inspection Services, Food Standards Agency & Security Agencies operate
- Overall coordination – “average” at both Colombo Port & BIA
# Export Documents

<table>
<thead>
<tr>
<th>Sea Cargo</th>
<th>Air Cargo</th>
</tr>
</thead>
<tbody>
<tr>
<td>CUSDEC</td>
<td>CUSDEC</td>
</tr>
<tr>
<td>Commercial Invoice</td>
<td>Commercial Invoice</td>
</tr>
<tr>
<td>Packing List</td>
<td>Packing List</td>
</tr>
<tr>
<td>Bill of lading</td>
<td>Certificate of Origin</td>
</tr>
<tr>
<td>Cargo Dispatch Note</td>
<td>Airway Bill</td>
</tr>
<tr>
<td>Certificate or Origin (where necessary)</td>
<td>Certificate or Origin (where necessary)</td>
</tr>
</tbody>
</table>

- Export – 5 basic documents; Preferential: CoO

- No significant differences between the document requirements for South Asia & developed countries as documentation requirements are mostly product based & are not country specific
# Import Documents

<table>
<thead>
<tr>
<th>Sea Cargo</th>
<th>Air Cargo</th>
</tr>
</thead>
<tbody>
<tr>
<td>CUSDEC</td>
<td>CUSDEC</td>
</tr>
<tr>
<td>Commercial Invoice</td>
<td>Commercial Invoice</td>
</tr>
<tr>
<td>Packing List</td>
<td>Packing List</td>
</tr>
<tr>
<td>Letter of Credit</td>
<td>Letter of Credit</td>
</tr>
<tr>
<td>Bill of Lading</td>
<td>Airway Bill</td>
</tr>
<tr>
<td>Delivery Order</td>
<td>Delivery Order</td>
</tr>
</tbody>
</table>
Average Time Taken to Clear Outward Goods

- **Colombo Port:**
  - 1 day-3.5 days
  - Majority – 1 day
  - SLPA - consignment can be cleared from the terminal within ½ hr after which normal customs checks/procedures follow

- **BIA**
  - 1 day – 3 days
  - Majority – 1 day
Average Days taken to Clear Inward Goods

• **Colombo Port:**
  - 1 day – 5 days
  - Majority: 3 days
  - 93% clear their goods within the demurrage free time period

• **BIA:**
  - 1 day – 3 days
  - Majority: 83% clear goods in 1 day

• **Customs Efficiency**
  - **Port – Average**
  - **Airport - Good**

---

**Customs Operational Efficiency**

- **Port**
  - 7% Very Good
  - 16% Very Low
  - 22% Low
  - 55% Good

- **Airport**
  - 5% Very Good
  - 53% Very Low
  - 40% Low
  - 55% Good
Automation of Export/Import Procedure

- **Submitting the CUSDEC Online**
  - Yes: 90%
  - No: 3%
  - Do not know: 7%

- **Processing the CUSDEC Online**
  - Yes: 61%
  - No: 31%
  - Do not know: 8%
Advance Rulings

- 44% - Aware of the facility of advance rulings issued by the Customs
- 20% - Actually used the service
- 56% - unaware of it or said “no” for the availability of the service
- Lack of awareness of the advance ruling facility available in the country.
- Customs - Possible to obtain advance rulings of classification (HS Code) from the Commodity Classification Division, prior to importing/exporting.
- Advance rulings valid for 1 year
Pre-arrival Processing of Import/Export Consignments

• 79% - It is either not available in the country or that they are unaware of it.
• 21% - It is available.
• According to the Customs pre-arrival processing is available only for a few selected perishable products
• Legal amendments to Customs Ordinance required to extend this to all goods.
Risk/Threat Assessment Technique & Physical Inspection of Inward Goods by Customs

- Recent Customs Initiative:
  - ‘Green Channel’ – September 2013
  - Available for 240 low-risk consignees
- 43% - More than 50% of their consignments are subject to physical inspection
- 21% - Less than 5% of their consignments are subject to physical verification.
Post Clearance Audit

- 53% - Customs exercise post clearance audits
- Majority said that it is not a regular practice carried out by the Customs.
- Customs: 24 carried out in 2012 (SL Customs Annual Report 2012).
- Majority rated the effectiveness of the post clearance audit to be ‘average’.
Single Window System

• 95% - SL does not have a Single Window

• Except for about 12 agencies (i.e. Tea Board, RMV, Ministry of Finance) many other relevant organizations are not linked to the system.

• Automation of systems & documentation of export process has been carried out to a substantial extent

• Recent Customs initiative - **One Stop Shop** at Customs:
  • Cosmetics, Devices & Drugs Regulatory Authority (CDDA)
  • Sri Lanka Standards Institution (SLSI)
  • Import and Export Control Department
  • Department of Animal Production and Health
  • Department of Agriculture (National Plant Quarantine)
Availability of a Non-Judiciary Review/Appeal Procedure

- Majority: no non-judiciary review/appeal procedure or did not know about one.
- Review process within the Customs: Department level → DG (responds within 90 days)
- Minister of the Ministry of Finance & Planning
- Tax Appeal Commission – yet to be established
Trade Related Infrastructure & Services
Quality of Infrastructure Facilities

- Airport – Good (57%)
- Port – Average (43%)
  - Condition of warehouses, congestion within the ports, out dated equipment
- Roads – Good (41%)
- Railway – Very low or low (72%)
- Warehouses – Average
  - Lack of adequate facilities i.e. lack of proper storage racking systems, inadequate security
Cost of Logistics Services

- Road Transport: Low
- Airport Charges: Average
- Port Charges: Average
- Maritime Transport Charges: Average
- FF/Customs Charges: Average
Priority Areas of Trade Facilitation
Publication & Administration of Policies Related to Trade Issues

- Both inquiry point & publication of rules - high priority
- Current publication of trade related rules/regulations – not comprehensive, adequate or effective.
- Inquiry Point - dissatisfaction of services due to inefficiencies & access issues
Rules & Procedures for Imports & Exports

- Time taken to clear inward/outward goods: 79%
- Irregular payments/bribes: 78%
- Coordination between border management: 72%
- Decrease the number/time required of: 69%
- Pre-arrival processing of import documents: 59%
- Issue and validity of advance ruling: 57%
- Physical inspection by customs: 48%
- Post clearance audit: 31%
## Trade Related Infrastructure & Services

<table>
<thead>
<tr>
<th>Service</th>
<th>High Priority (%)</th>
<th>Average (%)</th>
<th>Low (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality/efficiency of ports</td>
<td>85</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td>Quality/efficiency of roads</td>
<td>69</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td>Quality of warehouse/trans-loading facilities</td>
<td>68</td>
<td>68</td>
<td></td>
</tr>
<tr>
<td>Decrease loss and damage of cargo</td>
<td>65</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>Decrease the cost of using logistics services</td>
<td>64</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>Quality of telecommunication and IT</td>
<td>63</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>Quality/efficiency of railways</td>
<td>60</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Efficiency of quality/standard inspection</td>
<td>59</td>
<td>59</td>
<td></td>
</tr>
<tr>
<td>Quality/efficiency of airports</td>
<td>58</td>
<td>58</td>
<td></td>
</tr>
<tr>
<td>Efficiency of health/SPS</td>
<td>58</td>
<td>58</td>
<td></td>
</tr>
</tbody>
</table>

- High priority areas: quality/efficiency of ports, roads, quality of warehouses & need to reduce loss/damage of cargo & cost of using logistics services
- While acknowledging recent developments of roads, respondents identified congestion on roads to be a major drawback
107/121 highlighted the need for a single window in the country
- Minimize human intervention in the trading process
- Export process almost entirely automated. Import process, selection of cargo for physical examination carried out by customs officials.
Policy Recommendations – Country Level

• **Setting up/Strengthening Inquiry Points**
  - Enquiry points in different agencies but traders dissatisfied of services citing inefficiencies & access issues
  - National enquiry point can function as coordinating body between trading community & relevant regulatory bodies
  - Option: trade portal

• **Building Capacities of Testing Laboratories in the Country**
  - Shipments are cleared but not released until test reports are produced
  - Undue due to the lack of capacity to handle a large number of requests/ not equipped to issue international certifications required by buyers
  - Will reduce time & cost → demurrage costs, opportunity cost of holding products in idle
Policy Recommendations

• **Need for Change in Mindset and Culture at Key Trade Related Agencies**
  - Some initiatives do not function well in practice due to the lack of change in mindset to accept & adopt to new ways of conducting business
  - Need for the private sector to produce correct & required documentation without resorting to irregular payments
  - Recognizing businessmen as important stakeholders in county’s development process
  - Experiences of other countries for successful implementation of reforms
    - conduct awareness programmes & feedback forums on reforms for all stakeholders
    - committed leadership of the management
    - effective internal and external monitoring mechanisms
Policy Recommendations

• **Improving Trade Related Infrastructure**
  • Warehouse Facilities – not no.s but facilities
    - Lack of proper storage racking systems, poor conditions within them, poor handling & inadequate security
  • Rail Transport
    Current railway network and the services offered by the Sri Lanka Railway are not sufficient
    - Little loading and unloading facilities available
    - Railway transport charges being low, when all relevant charges like handling charges are added it’s more costly
    - Integrated multi-modal transportations system needs to be formed if traders are to receive cost/time benefits
  • Scanning Facilities:
    - Scanning facilities at the port & airport minimal
    - Results in delays & additional costs - traders having to send their own staff members to unload/load goods
    - Quality drops, i.e. security checks at airport
Policy Recommendations

• **Extending Pre-arrival Processing to More Products**
  - Pre-arrival processing currently available for only a limited number of products
  - Requires legal amendments to the Customs Ordinance

• **Need for a Single Window and Full Automation of Systems**
  - Need for a single window highlighted by the trading community
  - Currently only a very few agencies are connected
  - Right environment & foundation should be set for all stakeholders including SMEs
    - *i.e.* security of systems should be strengthened, necessary cyber laws should be enacted to manage risks
Policy Recommendations – Regional Level

• Harmonization of Standards & Reciprocal Recognition of Tests & Certification

• Mutual Recognition Agreement with India on Standard Testing & Certification
Thank you!