Making the South Asian Economic Union a Reality

Trade Facilitation for Efficiency and Regional Integration

Draft Final Report

Prof Amal S. Kumarage,
Department of Transport & Logistics Management,
University of Moratuwa, Sri Lanka

Mr Neil Magedaragamage,
Former Director General of Commerce,
Department of Commerce, Sri Lanka

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1 Terms of Reference

The Terms of Reference for this study are set out below.

- A Literature survey identifying barriers to Sri Lanka’s trade with South Asian countries, related to infrastructure (including all modes of transport), customs, standards, trade policy, regulatory framework, security and business mobility.

- Evaluating the trade facilitation measures taken so far – the evaluation should identify those policy measures that have been successful and examine factors that have contributed to the successful implementation of these measures.

- Examining the role and institutional functioning of various Government agencies involved in trade facilitation (customs, railways, road, shipping, home affairs and external affairs etc.,) as well as of relevant trade facilitation bodies within the local governments in border areas, state governments and the centre.

- Identifying the need for institutional reform and co-ordination amongst various agencies as well as suggest a reform agenda to carry the trade facilitation process forward.

- Identifying interest groups that would be losers in the trade facilitation process, as well as suggesting ways to deal with the challenges posed by them.

- Identify impediments in Sri Lanka - India trade along logistics chains. An examination of logistics chains for a few selected commodities will help in identifying cost drivers. One export and one import commodity can be selected from the textile sector. For the others, the focus should be to choose commodity-mode combinations that have not received adequate attention in existing literature.
1. LITERATURE REVIEW ON IMPEDIMENTS TO TRADE BETWEEN INDIA AND SRI LANKA

2.1 SRI LANKA’S TRADE WITH SOUTH ASIA

Sri Lanka’s trade with South Asia has considerably widened over the past two decades, showing more than a six fold increase from US$533mn in 1990 to US$3,618mn in 2008. Whilst its exports increased by five fold from US$128mn in 1990 to US$561mn in 2008, the imports expanded by seven and half fold from US$4,608mn to 22,091mn during the same period. Its imports from South Asia grew at a faster rate than its exports to the region. (see table 2.1).

Table 2.1 Sri Lanka’s trade with the world and South Asia.

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports as a % of Imports</th>
<th>Imports as a % of Imports</th>
<th>Total Trade as a % of Total Trade</th>
<th>Balance of Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>6.40%</td>
<td>15.40%</td>
<td>11.70%</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>3.00%</td>
<td>11.60%</td>
<td>8.00%</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>3.40%</td>
<td>7.10%</td>
<td>5.50%</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>10.50%</td>
<td>19.10%</td>
<td>15.40%</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>6.60%</td>
<td>22.40%</td>
<td>16.40%</td>
<td></td>
</tr>
</tbody>
</table>

As a percentage of Sri Lanka's trade with the world, its trade with South Asia accounted for 11.7% in 1990 and gradually increased to 16.4% in 2008. Sri Lanka’s trade with South Asian region has been heavily concentrated with India having a share of 90% at present as shown in table 2.2. On export front, this represented a share of 74% and on import front it stood at 93% in 2008. Thus India remains on the top of the list among Sri Lanka’s trading partners within the South Asian region followed by Pakistan. In 2008, the share with the rest of the South Asian countries accounted for US$ 98mn or 2.7% as percentage of its trade with the entire region.

Despite the fact that Sri Lanka’s trade transactions are unevenly distributed among the South Asian countries, the trade regimes brought about under the South Asian Preferential Trade Agreement (SAPTA), the Agreement on South Asian Free Trade Area (SAFTA), the Pakistan-Sri Lanka Free Trade Agreement (PSFTA) and the India- Sri Lanka Free Trade Agreement (ISFTA) have been to some extent instrumental in contributing for the expansion of Sri Lanka’s trade with the region in general and with India in particular.

Table 2.2 Sri Lanka’s trade with SAARC (2002-2008)

<table>
<thead>
<tr>
<th>Year &amp; Destination</th>
<th>Exports</th>
<th>%</th>
<th>Imports</th>
<th>%</th>
<th>Total Trade</th>
<th>%</th>
<th>Balance of Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2003</td>
<td>2004</td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
<td></td>
</tr>
<tr>
<td>----------</td>
<td>---------------</td>
<td>---------------</td>
<td>---------------</td>
<td>---------------</td>
<td>---------------</td>
<td>---------------</td>
<td></td>
</tr>
<tr>
<td>All SAARC</td>
<td>253.18 100</td>
<td>344.21 100</td>
<td>644.87 100</td>
<td>605.74 100</td>
<td>645.76 100</td>
<td>560.82 100</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>168.86 66.7</td>
<td>241.14 70</td>
<td>559.21 86.7</td>
<td>494.06 81.6</td>
<td>516.4 79.9</td>
<td>418.08 74.6</td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>28.81 11.3</td>
<td>36.13 10.5</td>
<td>43 6.7</td>
<td>58.89 9.7</td>
<td>55.47 8.6</td>
<td>71.37 12.7</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>55.51 22</td>
<td>66.94 19.5</td>
<td>42.66 6.6</td>
<td>75.08 15.1</td>
<td>52.79 8.7</td>
<td>71.37 12.7</td>
<td></td>
</tr>
</tbody>
</table>

(Values in US$mn)
At present considerably a larger share of trade between India and Sri Lanka is carried out under The Indo-Sri Lanka Free Trade Agreement (ISFTA)$^1$, which came into operation in 2000. The agreement covers only trade in goods and requires the two countries to offer market access for each other’s exports on duty free basis and concessionary tariffs. It provides for Sri Lanka duty free market access for 4,200 tariff lines in India. Additionally, Sri Lanka has also been given a Tariff Rate Quota for three product categories namely tea, garments and textiles, which are in India’s negative list. With a 50% preferential margin, 15,000mt of tea and 8mn pieces of garments per annum and with 25% preferential margin textile items without any quantitative restrictions per annum were made available for Sri Lanka in the Indian market. While India’s negative list contained 419 items, Sri Lanka list contained 1180 items. The ISFTA does not provide for elimination of non-tariff barriers.

Major categories of imports from India are petroleum products, (which represented nearly 34% in 2008), automobiles and parts thereof, agricultural products, pharmaceuticals, and cotton and synthetic yarn and fabrics.

**Table 2.2: Analysis of the 100 Main Import Items: 2007**

(Tariff lines at six digit level) from India to Sri Lanka

<table>
<thead>
<tr>
<th>Category</th>
<th>Negative list items</th>
<th>Non Negative list items</th>
<th>Tariff Concessions available</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of tariff lines</td>
<td>35</td>
<td>28</td>
<td>37</td>
<td>100 Items</td>
</tr>
<tr>
<td>Value Mn. US$</td>
<td>1659</td>
<td>257</td>
<td>420</td>
<td>2336</td>
</tr>
<tr>
<td>Value of each category as a % of total import of 100 tariff lines</td>
<td>71</td>
<td>11</td>
<td>18</td>
<td>100 %</td>
</tr>
<tr>
<td>Value of each category as a % of all imports from India</td>
<td>60</td>
<td>09</td>
<td>15</td>
<td>84%</td>
</tr>
</tbody>
</table>

As summarized in the above table, the top most 100 products (at six digit level) imported from India accounted for 84% of Sri Lanka’s total imports from that country in 2007. It is also noticeable that some 35 products accounting for 60% of Sri Lanka’s total imports from India did not enjoy duty concession under the ISFTA as these were under Sri Lanka’s negative list. This category includes products such as petroleum products, certain categories of motor vehicles, some agricultural products and paper and paper products.

Although not much focus has been given in the existing literature to trade facilitation in South Asia in Sri Lanka’s context, some authors have expressed concerns with regard to NTBs that act as a constrain for trade flows. (Weerakoon and Tennekoon, 2008). This is particularly relevant to exports from Sri Lanka destined to India. Some recent studies indicate that smaller trade gains in South Asia is mainly due to the fact that inadequate attention was paid to the trade facilitation measures such as ______

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$^1$ ISFTA was signed on 28th December 1998 and entered into force with effect from 1 March 2000, aims at promoting economic linkages between India and Sri Lanka through enhancement of bilateral trade and investment.
efficiency of customs and other border procedures, quality of transport, and cost of international and domestic transport (Weerahewa, 2009). Using sectoral gravity models of export of five product categories augmented by trade restrictiveness indices, presence of trade agreements, as well as trade facilitation variable, she has shown that trade facilitation variables have significant effects on export of different products, in varying degrees depending on proxy used.

From trade facilitation point of view, there are a number of bottlenecks found in the ISFTA as the Agreement has not adequately addressed trade facilitation measures and also do not contain any specific provisions to ensure an agreed implementation mechanism (CEPA includes provisions on trade facilitation). Though provisions for trade facilitation has been included under article 8 in the SAFTA Agreement, which include several measures the contracting states are required to consider in supporting and complementing SAFTA for mutual benefit, progress in this area does not seem adequate.

2.2 Status of Present Trade Facilitation

As shown above, the bulk of Sri Lanka’s trade with SARRC is at present largely confined to India with a share of almost 90% of the total trade and a large trade balance continuously favorable to India. A number of reasons can be attributed to such an evolution of a trade pattern. India’s higher degree of industrialization, presence of multi-nationals, product diversity, protectionist trade policies followed by India over several decades, prevailing NTBs and the geographical proximity between the two countries are some of the major reasons that stand favorable to India. It is also fair to say that, to some extent, the lack of focus on trade facilitation in the SAARC region may have had a negative impact on exploiting trade opportunities. Therefore, in this section focus is given to each of those key sectors in an attempt to critically review the present status.

2.2.1 Infrastructure

The prevailing infrastructure cannot be seen as a major impediment for promoting Sri Lanka’s trade with Bangladesh, India, the Maldives and Pakistan. However, the ongoing trade pattern shows that due to difficulties arising from poor transit facilities trade relations with Afghanistan, Bhutan and Nepal did not progress much. Moreover, the direct air connectivity between Sri Lanka and the latter three destinations has also not evolved to support passenger traffic. Hence, any cargo transactions between Sri Lanka and the latter three nations should be diverted through the transit points in India and Pakistan. Due to poor infrastructure such transactions take unusually longer duration and the costs involved are also high.

Although under the ISFTA, a tariff quota for tea was allowed, until recently exports were permitted to pass through only the ports of Kolkata and Cochin. Such ports restrictions did not facilitate exports. Ports closer to the required destined markets were not permitted. For example, goods should not land at any port other than the Cochin whereas the closer ports to the destined markets are Chennai and Tutukorin. It created unnecessary expenses of transportation from the remote port to the other required destination by lands and therefore trade did not pick up.

2.2.2 Customs
Customs of each member countries of SARRC do not have a transparent procedures and systems. Publication of customs procedures, laws and the tariff details and the penalties provisions are not easily accessible. Sometimes most of the practices are not in accordance with the written systems and procedures. Lack of transparency and unpredictability pose procedures and their related practices more cumbersome.

In the case of port handling in Sri Lanka, according to the Clearing and Forwarding Agents’ Association, on an average, the clearance of a container from the port after unloading takes around four days and adds an additional cost of US$400 until it reaches the consignee’s wharehouse. It has been pointed by the Association that any export consignment from India to Sri Lanka may take a day or two but clearance from port take more than the double of that time. This longer “dwelling time” is a concern for traders. In order to avoid such opportunity cost due to long delays, clearing agents are compelled to resort to other avenues in order to ensure that goods are cleared without such delays.

2.2.3 STANDARDS

Lack of awareness in the standard requirements is causing difficulties. Still the region has not matured to the requirements of international standards. No publications available on the requirements of standards both TBT and SPS. In the absence of mutual recognition arrangements, standards in one country to other differ substantially. Therefore, harmonization, rationalization and simplification, of standards and making available documents related to all standards in a transparent manner is an integral part of trade facilitation.

The unnecessary delays in clearing cargos on arrival due to vigorous procedures being employed in the process of verification of standards is a concern to all the trade. In setting standards, the national standard agencies should adopt policies on realistic grounds based on scientific reasoning.

In this respect, the signing of the Agreement on Establishing of the South Asian Regional Standard Organization (SARSO) during the Fifteenth SAARC Summit in Colombo held from 12th to 13th August 2008 is an important step. A range of products has been initially identified for the purpose of harmonization of standards in the member countries. They include cement, sugar, biscuits, skimmed milk powder, vegetable ghee, instant noodles, electric cables, steel tubes, structural steel, textile fabrics, jute and toilet soap.

2.2.4 TRADE POLICY

Lack of information in a consistence manner on macro and micro policy instruments that have a bearing on trade can also be seen as a non - facilitator of trade. Therefore, transparent, predictable and consistence trade policy and placing them in the public domain through publications will play a pivotal role in meeting the objectives of trade facilitation.

2.2.5 REGULATORY FRAMEWORK
The greater the regulatory mechanisms, the higher the cost and lower the efficiency. The information on the regulatory framework is not transparent and on some occasions the practices are also not in conformity with the written regulatory framework.

2.2.6 Security

Increasingly countries are concerned with port security also due to threats from rising terrorist activities world over. Hence action has been initiated to build national capacity on boarder control to prevent non-trade actors from illegal trafficking of material and technology without hampering legitimate trade. Sri Lanka too is working closely with several nations including the United States. Such measures are essential to give the assurance to its trading partners that no illegal cargoes are entering through our ports and thereby to protect the genuine trade. It is accepted that any measures of trade facilitation should not be at the cost of national security. Measure that are needed to ensure port security and the security of vessels and the seafarers, and cargo itself should be considered essential apart from the broader perspective of national security. Port security is also required to avoid pilferage of cargo and protect state revenues. However, such measures should be maintained in an efficient manner and should not be unreasonable.

2.2.7 Business Mobility

In regard to business mobility, both travel procedure including obtaining visas and logistics are important. The delays in obtaining entry visas for the business community to travel to some of the member countries of SAARC discourage potential businessmen from widening their business networks. In this respect, the air connectivity to commercial destination is a key to promote business interest.

2.3 Government Institutions Involved in Trade Facilitation

It is the central government in Sri Lanka that has the authority over the boarder control. The provincial councils do not have a role to play in this area.

The following government institutions can be identified as playing a role in trade facilitation:

Investment Promotion

- Board of Investment of Sri Lanka
- Department of Commerce
- Central Bank of Sri Lanka
Transport

- Sri Lankan Air Lines
- Other airlines operating through Colombo airport
- Airport and Aviation Services (Sri Lanka) Ltd
- Sri Lanka Ports Authority
- Ceylon Association of Ships Agents
- Association of Clearing and Forwarding Agencies
- Railway Department
- Road Haulage providers
- Sri Lanka Shippers’ Council

Tariffs/Border Checks

- Sri Lanka Customs
- Department of Trade, Tariff and Investment Policy
- Department of Animal Production and Health/Animal Quarantine
- Ministry of Environment and Natural Resources
- Ministry of Health Care and Nutrition
- Ministry of Agriculture Development & Agrarian Services
- Department of Import & Export Control
- Sri Lanka Standard Institute

Trade Assistance/Chambers

- Ministry of Export Development and International Trade
- Federation of Chambers of Commerce and Industry of Sri Lanka
- Sri Lanka Export Development Board
- Sri Lanka Tea Board
2.4. PRESENT IMPEDIMENTS TO TRADE FACILITATION MEASURES IN INDIA AND SRI LANKA

Therefore the following impediments have been noted:

1. **India require various additional checks, certificates and laboratory testing for imports from Sri Lanka although they have been tested and certified by the relevant authorities of Sri Lanka where it is an acknowledged fact the standards are higher than average Indian standards.**

2. **Certain Sri Lankan firms have had difficulties in setting up businesses in India or exporting to India. Para-tariffs such as discriminatory state taxes in India have eroded preferences Sri Lankan exporters have obtained at the national level under either ISFTA or SAFTA. Port restrictions have limited Sri Lanka's exports of tea and “vanaspathi”.**

3. **Both Sri Lankan and Indian firms have had difficulties in terms of excessive bureaucratic delays and hidden regulations that have made commercial operation problematic and therefore uneconomical. For example, documents are asked for by Indian Authorities which are not specified in ISFTA and further more when documents are submitted which are in accordance with FTA, the official communicate that these are not the proper documents and request for “other” documents.**

4. **Freedom of transit is dealt with on a bilateral basis between India and Nepal but so far not acceded to international transit conventions. In Sri Lanka no measures on transit facilitation.**
5. With regard to import export procedures, in India the system is complex and considerable documentation and duplication of works. In Sri Lanka export procedure streamlined but regulated by large number of laws, export control in some goods and several departments involve in import procedures are major issues.

6. Fees charges in both countries are fairly large in number and the amounts can be substantial. (no duties for exports, a number of charges on imports in Sri Lanka. In India most fees are based on the cost of services, but some on ad valorem basis)

This is supported by a study on “Ground Level Problems Encountered in Importing Sri Lankan goods to India Under FTA”\(^2\) revealed that,

a) Often Indian customs doubt the Country of Origin of the goods which results in further delay. Often customs even demand for detailed cost sheets which reflect the value addition criteria of 35% and there are disputes when these are produced as well.

b) The classification of goods is also an ambiguous area. Whilst some goods appear on the Open General Licence whilst when the goods arrive the importer is told that a Special Import Licence is required (SIL). SIL has to be issued by the concerned ministry coursing further delay.

c) Different ports in India classify the goods imported under different duties and also countervailing duties for certain goods where there is no basic custom duty. *At present there is an Anti-dumping investigation concerning import of certain Plain MDF exported from Merbok MDF Lanka (Pvt) Ltd, Sri Lanka, etc.*

d) For checking edible items the checking is done by labs situated in the cities away from the cities where ports are. This procedure courses further delay in goods clearance and especially perishable items are badly affected. *For example imports into Chennai are sent to (Central Food Technology Research Institute -CFTRI Mysore and imports into Mumbai are sent to CFTRI Pune)*

\(^2\) Somi Hazari, Chairman Madras Trades Association, April 2009
e) The import of pepper has also been placed under quota and was earlier clubbed with the import of Vanaspathi from Sri Lanka does not auger well as Spice Producers in Sri Lanka feel very strongly that their products are made to face significant non tariff trade barriers whereas Indian exporters to Sri Lanka as on date do not face any Non-Tariff barriers when export their goods to Sri Lanka.
3. ASSESSING THE TRADE FACILITATION MEASURES TAKEN SO FAR;

3.1. EARLY STAGES IN TRADE FACILITATION

Cry for trade facilitation measures in Sri Lanka goes back to early 1970s. According to the records that were available at the Department of Commerce of Sri Lanka, the trading community had, as far back as early 1970s, appealed for simplified procedures to be practiced in monitoring international trade. Nevertheless, there was no evidence of any substantive action taken as a response.

After 1977, with the government policy shifting towards an export led growth and an open market economy, the policy makers realized the importance of implementing trade facilitation measures for development of the economy and therefore the Government sought the assistance of international organizations such as the World Bank and the UNCTAD for technical assistance. It also appointed various ad-hoc committees to solicit guidance. Some of their recommendations particularly on policy issues such as on Exchange Controls had been implemented without delay. Introducing systematic Trade Facilitation (TF) measures however, required a great deal of technical expertise, and therefore the Ministry of Trade took action to appoint a ‘National Trade Facilitation Committee’ along the guidelines recommended by UN-ECE / FALPRO in 1980. This committee later adapted the acronym ‘SRILPRO’, which was a public-private partnership programme with a number of government and private sector institutions were involved.

The importance attached to the trade facilitation is obvious from the fact that the government proclaimed in 1980 that trade facilitation as a key element on the road for economic development.

In 1981, the Hon. Minister of Trade issued a Gazette Notification declaring SRILPRO as an advisory Committee to the Sri Lanka Export Development Board with funds coming from the SLEDB itself to support it.

In order to deal with issues, several sub-committees such as Sub-Committee on Licensing, Sub-Committee on Air-Cargo, Sub-Committee on Containerized Cargo, Sub-Committee on Entrepot Trade and Sub-Committee on Electronic Data Interchange were created during 1982 to 1986. Over 50 Trade Facilitation Cells were also created at respective institutions during the same period. Some of the key institutions included in this arrangement were Sri Lanka Customs, Exchange Control Department of the Central Bank of Sri Lanka, Shipping Lines/Ships’ Agents, Export Office in the Port of Colombo, Exporting Firms and Commercial Banks.

A study undertaken by SRILPRO in 1980 revealed that it took between 3 to 7 days to get the necessary approval to export and that there were about 66 documents in varied size, shape and
structure that were in regular use to handle exports. In 1980, there were 22 items under license control by the Department of Import and Export Control, which was subsequently reduced to 11 and finally to 4 at present. Another key development that took place in 1990s was the creation of a single window for export of gems and jewellery with the support of the Gems and Jewellery Exporters’ Association.

Sri Lanka’s accession in 1984 to the ATA Carnet Convention helped exporters and professionals to take exhibits, commercial samples and equipment etc. to ATA member states and in and out of Sri Lanka (on temporary basis) without following normal Customs procedures / payment of duties.

In 1997, following Sri Lanka’s accession to article VIII of the IMF, a further measures were taken to facilitate exports. The cumbersome documentation procedure that was hitherto in place to monitor export proceeds was done away with. As a result, for the most of export products, the only institution exporters required to go for approvals became the Customs Department. Furthermore, the reforms helped move away from the export price monitoring mechanism implemented through various government institutions. Such measures drastically reduced the time taken for approvals from four to seven days in 1970s to 15 minutes or less. Exporters who use the EDI obtain their approvals within seconds.

The introduction of a set of three UNLK Aligned Documents (United Nations Layout Key for Trade and Transport documents) on 1st March 1981 was a notable achievement as these three documents replaced 12 documents that were required by the Sri Lanka Customs, the Sea Port/Airport, the Exchange Control Department and the Import & Export Control Department for export of goods from Sri Lanka. This laid the foundation to eliminate unnecessary documents used in external trade and transport in Sri Lanka and convert the rest to the UNLK format. For example in 1986 a Standard Shipping Note was introduced amalgamating nine documents used for taking cargo to the ports for loading. Similarly in 1987, 11 different forms that were used by the Tea Board to monitor exports of tea were reduced to one. In 1994 that too was discontinued with the introduction of a Single Administrative Document (SAD) by the Customs.

From the very outset, the government recognized the importance of Automatic Data Processing (ADP) and encouraged the use of standard forms, data elements and international codes etc. With this both the private and public sector institutions began to use various duplication systems to generate documents which were almost impossible earlier. The introduction of standards made it possible for government institutions, exporters, and transport providers to automate data processing and SRILPRO introduced the concept of EDI in Sri Lanka in 1995. However, it was only in 2002 it succeeded in establishing a company to provide a value added network service that was needed to implement and EDI system.

Focus was also given on simplification of import procedure. One of the corrective measures that had been taken initially was the introduction of simplified procedures for import of machinery and raw material, replacing cumbersome Duty Drawback Schemes. These were
called TIEP (Temporary Importation Schemes) and were managed by the EDB in collaboration with the Customs. At a certain point of time the government lifted all import duties on textiles with a view to eliminating complexities involved in monitoring leakage of duty free inputs for export production, thus providing an impetus to the garment manufacturing industry in Sri Lanka.

In 1994 Sri Lanka Customs implemented the ASYCUDA System (Automated System for Customs Administration) and a Single Administrative Document (SAD) with technical assistance provided by UNCTAD. The ASYCUDA system also developed capabilities for risk management, post-entry audit and mechanisms such as Green and Red channels.

In 1997 eleven documents used in cargo clearance, were amalgamated into a Standard Delivery Order (DO) to be used among the importers, Freight Forwarders, the Ships’ Agents and the Ports. It also included columns for Port Charges and a Gate-Pass (for a single package/single container).

In order to ensure wider participation of and better co-ordination with the various segments involved in foreign trade activities, the government through the SLEDB facilitated the trade in establishing trade associations. Those included the Sri Lanka Freight Forwarder’s Association (SLAFFA), the Association of Container Terminal and Depot Operators (ACTDO), Association of Container Transporters (ACT), and the Entrepot Traders’ Association.

**Infrastructure Projects**

In addition to simplification of procedures SRILPRO got involved in development of infrastructure projects that had ramifications in the streamlining of procedures. This includes recommendations in respect of design of the air-cargo terminal at the Colombo Airport, establishment of ICDs at certain central locations and the establishment of an Air Cargo Village in Colombo.

**Capacity Building**
Capacity building both in the public and private sector agencies has also been well recognized by the government and in this context a number of activities have been implemented over the past several years. Development of human resources within agencies such as SRILPRO, EDB, Department of Commerce, Department of Customs, Ministry of industries, Board of Investment of Sri Lanka (BOISL) and other key agencies including trade chambers and associations involved in trade and investment policy was facilitated through seminars/workshops and study missions abroad. Those include events organized with the assistance of UN-ESCAP / FALPRO, UNCTAD / CCC (WCO) CEFACT, AFACT, World Bank and the WTO.

3.4. AVAILABLE EVALUATION METHODS

The most recently the Department of Commerce held a workshop on trade facilitation with the participation of key stakeholders in Colombo. Conducted under the guidance of the WTO experts from 18th to 22nd May 2009, the workshop focussed on measures taken so far by the government of Sri Lanka falling within the mandate of DDA negotiations as prescribed under GATT 1994 articles (Articles V, VII and X. These measures are broken-down to 33 items that are essential for a successful trade facilitation process.

The measures are listed below with the present status of each of them (in compliance/partially in compliance/not in compliance). The workshop also deliberated on the reasons for non compliance and identified various barriers that need to be overcome in order to make progress. It also identified the priority areas as well as the measures for which changes in legislation and technical assistance are required.

A.1  Publication and notification of trade regulations and of penalty provisions
A.2  Internet publication / establishment of official website
A.3  Establishment of Enquiry Points
A.4  Notification

B.1  Interval between publication and entry into force
B.2  Regular consultation -
B.3  Regular consultation
C.1 Provision of Advance Rulings

D.1 Right of Appeal

E.1. Import Alerts/ Rapid Alerts
E.2. Detention
E.3. Test Procedures

F.1 Disciplines of fees and charges imposed or in connection with importation & exportation

G.1. Pre-arrival Processing
G.2 Separation of Release from Final Determination and Payment of Customs Duties, Taxes and Fees
G.3. Risk Management/ Analysis
G.4 Post-Clearance Audit
G.5 Establishment and Publication of Average Release and Clearance Times
G.6 Authorized Traders
G.7 Expedited Shipments

H.1 Prohibition of consular transaction requirement

I.1. Coordination of Activities and Requirements of All Border Agencies

J.1 Periodic review of formalities and requirements
J.2 Reduction/limitation of formalities and documentation requirements
J.3 Use of international standards
J.4 Acceptance of commercially available information and of copies
The results of the evaluation are as follows:

- Already compliant with 12 (39 %):
- Partially compliant with 19 (55 %):
- Not compliant with 2 (6 %):

The evaluation should identify those policy measures that have been successful.

**Examples of Measures for which trade is already in compliance:**

- B.1 Interval between Publication & Entry into Force
- D.1 Right of Appeal
- E.1 Import Alerts/Rapid Alerts
- E.2 Test Procedures
- G.3 Risk Management/Analysis
- H.1 Prohibition of Consular Transaction Requirement
- J.7 Use of Customs Brokers

**Examples of Measures for which we are partially in compliance:**

- A.1 Publication of Trade Regulations and of Penalty Provisions
Examples of Measures for which we are not in compliance:

A.4 Notification
G.6 Authorized Traders

3.5. FACTORS CONTRIBUTING TO SUCCESSFUL IMPLEMENTATION OF MEASURES

The factors that have contributed to the non-implementation of some of the measures have been analyzed as follows:

Examples of Reasons for Non-Compliance/Barriers to Implementation of the Proposed Measures:

- Not the WTO obligation at this moment
- Lack of awareness
- Lack of policy direction
- Lack of infrastructure and resources
- Lack of stakeholder coordination
- Lack of legislation/ written procedures

Examples of local action we can take to overcome barriers:

- Set up a national coordinating committee
- Develop technical skills
- Create awareness programs
- Disseminate and share information
- Implement institutional arrangements
- Change legislation / procedures

3.6. INSTITUTIONAL REFORMS

Examples of action that can be taken to overcome barriers:

- Set up a national coordinating committee
- Develop technical skills
- Create awareness programs
- Disseminate and share information
- Implement institutional arrangements
- Change legislation / procedures

3.7. TECHNICAL ASSISTANCE

Examples of action that can be taken to overcome barriers:

- Setting up of national Website for trade-related information
- Upgrading testing laboratories/ equipments
- Study of best practices of the other countries
- Funding for Single Window infrastructure
- Funding for advanced scanners and other non-intrusive inspection equipments
3.8 Co-ordination among Agencies

Examples of action that can be taken to overcome barriers:

- M.1 Customs Cooperation
- A.2 Internet Publication
- A.3 Establishment of Enquiry Points
- G.3 Risk Management/ Analysis
- G.4 Post-clearance Audit
- J.5 Single Window
- J.6 Elimination of Pre-shipment Inspection

3.9. Impediments to Change

Impediments to change come from interest groups that would be losers in the trade facilitation process who can be identified as follows:

a) Sri Lanka Port Authority: As an institution and as individuals they lose their income and importance in the clearance of cargo.

b) Sri Lanka Customs: Individual loses their outside income and their prominence in the job.

c) Fraudulent Businessmen: They lose the unlawful competitive advantage they get and are compelled to compete with other businessmen on equal opportunities without the possibility of making illegal payments for priority and fraudulent practices in clearing goods.

Examples of ways to deal with those organizations

- The Chief Executive Officers of these institutions should be appointed from outside of the services of these institutions with the strong will and direction of the country’s head to implement the recommended measures strongly amidst the expected agitations of the trade unions of these institutions against the reforms that facilitate trade.

- The port should declare every year or every month the total demurrage collected and it indicates the inefficiency of the system in place. The reasons for the undue delay in clearance of cargo should be analysed and stringent procedural measures should be implemented with the target reduction in demurrage. Country's economic benefits are
more important than the ports economic benefits. Therefore an action plan to reduce the 
demurrage should be introduced with the target to be achieved to introduce more and more 
efficiency in the system.

- The maximum dwelling time of each shipment should be declared from time to time achieve 
the required target.
- Irrational procedures in the customs should be removed to smoothen the systems, on the 
contrary it should not give any advantageous for the

4. LOGISTICS IMPEDIMENTS IN SRI LANKA THAT IMPACT FOREIGN 
TRADE

Transport and logistics system of Sri Lanka can be considered as critical important factor for 
improving international trade with South Asian countries as well as other countries. Transport and 
logistics network of Sri Lanka consists of infrastructure facilities, sector specific policies, 
organizations, service providers and directly involved parties such as traders.

4.1 Ports

Since the Port of Colombo, is a significant regional transshipment hub providing vital connection for 
trade between the SAARC Region and the rest of the world, the Sri Lankan government is moving 
towards a vision of “Sri Lanka becoming a logistics hub for South Asia.”

Most of Sri Lanka’s foreign trade currently flows through two gateways, namely the Port of 
Colombo and the Katunayake International Airport also located around 30 km north of Colombo.

The Port of Colombo is considered as one of the best performing port in Asia. However, it has 
several constraints in terms of access. It being located within the Colombo City limits results in slow 
approach speeds. Moreover the many checkpoints due to security reasons also add to this. There is 
hope that the later would be lifted in due course due to the improving security situation. There are 
also constraints in the processing of less than container load cargo due to the disorganized planning 
system and high terminal handling charges. All these factors result in increase in costs, delays and 
increasing waiting time for goods along the the supply chain.

The Port of Colombo is currently being developed to meet capacity requirements. A new port in the 
southern tip of Sri Lanka is also under construction. These two ports will together provide a large 
impetus for external trade by sea.
4.2 Airport

In the case of the airport, it is currently fully fledged with modern equipment and has adequate capacity. There are however deficiencies in handling of freight especially due to security concerns. There are initiatives to consolidate the airport and port logistics to a air-sea hub due to the close proximity of both locations.

4.3 Roads

The inland transport system mainly comprises of roads and railways with the road carrying over 97% of the freight. The prevailing road standards and conditions are inadequate to handle the rapidly growing freight and passenger traffic. These together with insufficient road capacity improvements, unplanned road maintenance, uncontrolled road side development results in congestion, low travel speed, poor service and traffic bottlenecks in the freight distribution system. Traffic and congestion in the urban areas close to the Colombo Port has affected the international trade in Sri Lanka. The Road Development Authority is presently engaged in developing a modern limited access highway network which will connect the Port of Colombo with a number of provincial centres. There are also steps to set up an Inland Container depot that can be serviced by the railways.

4.4 Railways

The railway tracks, bridges and stations are yet to be modernised. There has not been a priority to carry freight by the railways and as such their contributions are limited to carriage of fuel, cement and flour. They do not currently service the Port of Colombo. There is however a fairly good service to the eastern port of Trincomalee.

4.5 Connection to India

Up to 1983 there was a seasonal ferry service operated by the railways of both Sri Lanka and India. There are presently initiatives by the Government of Sri Lanka to commence a Ro-Ro ferry from Colombo to Cochin and Tuticorin. Some infrastructure for this has already been constructed. Another initiative by Sri Lanka is to construct a rail-road bridge across the 32 km Palk Strait. This is expected to provide much development impetus especially to the areas north of Colombo and Indian markets.

4.6 Freight Forwarders
Logistics service providers include customs brokers, third party logistics providers, freight forwarders, warehouse operators, transport providers etc. According to the Sri Lanka Logistics Providers Association, 80% of its member's total business is exports, and members handle 60% of apparel exports in Sri Lanka\(^3\). The other logistics services providers’ are mostly of an informal nature and still not up to the standard to be engaged directly in international trade standard.

### 4.7 Export Import Process Performance

Import and export process performances for commodities such as garments, rubber, coir under the BOI control is reported to be in acceptable condition\(^4\).

Overall performance of international trade related logistics system impact on the country’s international trade performances. Sri Lanka is ranked 66 overall for ease of trading across borders\(^5\). This report concludes that economies that have good transport and logistics systems, less amount of export and import documentations, less time spend for import and export processes, less cost incur in import and export processes will get competitive advantage in international trade.

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\(^3\) Fastpath Transport and Logistics Analysis, USAID, 2007

\(^4\) Ibid

\(^5\) Doing Business, World Bank, 2009
5. SELECTION OF PRODUCTS FOR THE STUDY OF EXAMINATION OF LOGISTIC CHAIN

For the logistic chain analysis, three groups of products have been selected to represent three different stages of level of finishing namely, un-processed, processed and manufactured products. As agriculture is the mainstay in the Sri Lanka economy, exports of agricultural products both in unprocessed and processed forms to neighboring India would provide a valuable guidance as a test case to understand the efficacy of the prevailing conditions at each stage in the logistic chain. Moreover, similarities in food habits and tastes are another factor that makes the selection of food sector more relevant. Close proximity particularly to South Indian destinations and Sri Lanka already having a relatively developed food processing industry are some positive factors that help gain market access for these categories in India. The first category under this segment identified represents those falling under HS chapter 7 (vegetables) and HS chapter 8 (Fruit and nuts). Several varieties of fruit such as pineapple, passion fruit, rambutan, star fruit and mangostine have market potential in India. Sri Lanka’s exports of products under these two chapters to India accounted for US$4.75mn. or 4% of the total exports to the world in 2008. The second category is the processed food segment that fall under HS chapter 9 (coffee, tea, mate and spices); chapter 11 (product of the milling industry); chapter 15 (animal or vegetable fats and oils and their cleavage products; prepared edible fats, animal or vegetable waxes); chapter 16 (preparation of meat, of fish etc); chapter 17 (sugars and sugar confectionary); chapter 18 (cocoa and cocoa preparations); chapter 19 (preparation of cereals, flour, starch or milk, pastrycooks' products); chapter 20 (preparation of vegetables, fruits, nuts or other parts of plants); and chapter 21 (miscellaneous edible preparations). The value of this range of products exported to India accounted US$76.3mn or 21% of its total exports to the world in 2008. The third category of products is the textile (chapters from 52 to 60) and clothing (chapters 61 and 62). While textile segment is chosen to examine the conditions on the value chain when goods are destined to Sri Lanka, the clothing or garments segment is chosen to look at the conditions on the other way around.

Textiles and clothing do not capture as a major category of export products to India despite its prominence in the total export basket to the world. India itself is a major producer and exporter of textiles and clothing and this sector remains the largest manufacturing industry in India in terms of employment, providing 35mn jobs or 8.6% of the total workforce. India exports textile and clothing to the tune of US$ 10bn per annum. Nevertheless, given the high quality and performance in textile and clothing sector in Sri Lanka, this sector too has export potential in the Indian market to capture certain niche markets.

While Sri Lanka’s import of the textile category from India accounted for US$ 206mn or 12.2% of total imports in 2008, its exports of garments category to India accounted for a mere US$ 3.5mn in the same year. As Sri Lanka does not have a large yarn and fabric manufacturing base locally,
smooth flow of material sourced from abroad into the sector is a key to maintain its competitiveness. Due to close proximity coupled with India’s advanced manufacturing technology, quality and prices, India is considered as one of the important sources of material for Sri Lanka’s garments sector.

Moreover, under the ISFTA provisions, Sri Lanka has been provided with market access for garments at a reduced tariff rate of 50% of advalorem rate on applied MFN or 75% of specific rate on applied MFN for a quantity of 8mn. pieces per annum of which a minimum of 6mn pieces should contain Indian fabric. In addition, a fixed preferential duty margin of 25% on applied MFN duty rate for 553 textiles items (at six-digit level), were granted for Sri Lanka with no quantitative restrictions.

However, there were specific Ports to which goods could be shipped, viz., Chennai, Kolkata, Mumbai, Nava Sheva. It should be noted that the garments and textile products are included in India’s Negative List.

In spite of such a market access under the ISFTA, Sri Lanka’s export performance both in garments and textiles is extremely poor in the Indian market. A question to be asked in this regard is as to why Sri Lanka couldn’t reap the fullest advantage of the provisions under ISFTA in order to penetrate into the Indian market. Therefore there is a strong case for selecting these two categories namely textile yarn and fabrics from India to Sri Lanka and finished garments from Sri Lanka to India.

The logistics chain analysis for the selected range of products will help in identifying cost drivers and the performances at each stage from a holistic perspective.
6. Logistics Chain Analysis of Selected Commodities: 

Textiles and Food Items

This section addresses the issues in routes and modes, transport and other infrastructure, customs, standards, business mobility, transaction cost and trade policy in international trade between India and Sri Lanka related to the selected goods namely, textiles and food item imports as well as exports. This report reflects the Sri Lankan perspective from the point of view of the exporters, importers, transporters, freight forwarders and clearing agents who were subjected to the survey.

6.1 Transport

Maritime transport is the primary mode of transportation between India and Sri Lanka; however air transportation also plays a growing role in the export and import of goods. Since there is no land connection between Sri Lanka and India there is currently no trade overland.

Transportation cost is considered as being reasonable as existing routes are convenient for most of the exporter and importers. It was found that ships usually meet the schedules except in exceptional cases such as during monsoon seasons. However it was found that quite a lot of delays were recorded on the Indian side due to congestion in the ports, delays in clearing cargos and strikes in the ports. Furthermore, it was noticed that cargos is kept in Indian ports for a longer period of time before relevant parties clear them due to the lack of coordination. Another issue stressed was that containers unloaded in Indian ports, are taken to locations which are far away due to the non availability of space in the ports, causing increased land transport costs to the Sri Lankan exporters or Indian Importers.

Different products require different logistics needs, mode of transport, warehousing, storage and containerization. Quality of the containers is a very significant factor in export of garments and food items. Most of the garments export to India is ready made finished products, which normally require special containers called ringing containers. The poor quality of containers are also said to lead to damage of the products that are inside which are made of sensitive fabric. Furthermore most of the processed foods require reefer containers for transportation.
Congestion is cited as one of the major problems affecting transport of goods by road especially during the day time. There is congestion inside the port premises also. As there are several procedures regarding documentation it takes some time for a truck to clear a terminal gate. Hence it creates long queues inside the port premises as well as outside.

6.2 Ports & Airports

There are two organizations involved in port operations in Sri Lanka. The South Asia Gateway Terminal (SAGT) is a private service provider while the Sri Lanka Ports Authority (SLPA) is state owned and operated. According to the respondents to the questionnaire, the SAGT provides a better and more efficient service to the customers than the SLPA.

Container vessels rarely face congestion in Sri Lanka unless there is a breakdown or an issue regarding cargo handling. Usually container ships get the opportunity to berth within the given time slot as the berthing windows are allocated to the container vessels through the agreements they have with the two major terminal operators (SLPA and SAGT) in the Port of Colombo. With respect to bulk cargo operation, the scenario is different. Normally bulk feeder vessels have to face congestion as they have to stay in a queue to enter the port area.

The necessary infrastructure such as gantry cranes, fork lifts, terminal trucks which are needed for the efficient cargo handling and storage is available at the Port of Colombo. Even though breakdowns occur periodically, there is no major impact since repairs are done quickly since there is a focus on providing an efficient service. There are also no major complaints on pilferage occurring to the containerized cargo especially with respect to FCLs in the Port of Colombo. FCLs are reported to be well secured and stored in properly maintained yards. But, there is inadequate security for the LCL cargo and other bulk cargo where there are many complaints of theft and pilferages. Further to these, pilferage is reported in air cargo as well.

As port services are considered an essential service in Sri Lanka, the supply of water and electricity to the Port of Colombo is given priority. There are no significant power outages except in major breakdowns where the entire national electricity grid is affected. However supporting facilities like telephones, faxes and photocopiers are not available within the port freely. It is also reported that the parking facilities for trucks inside the port is inadequate. They claim that if parking is allowed
same trucks could be used for import and export as opposed to different trucks having to be used for exports and imports separately.

Use of information technology facilities for the port services has also improved during last 5 years. The Jaya Container Terminal (JCT) managed by the SLPA has recently introduced a new Terminal Management System in order to increase efficiency of operations. South Asia Gateway Terminal (SAGT) had in 2008 purchased new cargo handling equipment including twin lift quay gantry cranes with rubber tires. Banking and insurance facilities are satisfactory even though most of the goods transported to India is under cost & freight terms only.

Sri Lanka Ports Authority owns several warehouses which provide de-stuffing facilities, multi country consolidation facilities, and bonded warehouses which facilitate LCL Cargo. The service offered by the warehouses has improved with new infrastructure but the service is reported to be less than satisfactory as customers sometimes spend hours trying to locate their shipment or trying to get their shipment together. Damages are said to be high along with high level of pilferage.

Physical security aspect of the Port of Colombo is in good condition. This is mainly due to the extra precautions that are maintained against the threats of terrorist activities by the Navy and Police. However the stringent security measures have also made access to the port very difficult. However with the 30 years terrorism situation ending access can be again expected to ease out in the next few months.

6.3  CUSTOMS

The Customs Department was established in 1806. Though its activities have over a period of time been diversified, its primary role still continues to be the collection of revenue and the enforcement of the laws related to trade. Presently there are around 2,500 customs officers in Sri Lanka. There work is seriously constrained by the gap between the increasing volume of trade and the shortage of the resources. One example which takes much time is the filling of the IGM (Import General Manifest). This results in night time operations been very slack and delays during day time.

Most respondents report that demanding bribes has almost become a norm. Clearly it has become a major problem for all the port users, shipping companies, freight forwarders, clearing agents with some organizations even maintaining separate documents to calculate the amount of bribes paid daily.
However developments over the last few years such as the adoption of the WTO Customs Valuation agreement and the advent of the Electronic Data Interchange (EDI) would pave the way for more efficient and transparent customs procedures. However, the EDI system is still not fully functional, with several modules yet to be implemented, causing importers and exporters to continue to suffer delays. Most companies mentioned that the customs procedures in Sri Lanka are generally considered more cumbersome when trading with the rest of the world than when trading within South Asia. There are different views regarding the EDI facility available at the port. Some report satisfaction while others complain of errors and breakdowns. But overall, there is agreement that the EDI system has improved during the last three years.

However, in case of goods exported to India from Sri Lanka, 4 copies of the CUSDEC are required (warrant copy, statistical copy, security copy, parties copy) with additional copies needed for bonded cargo and air freight cargo (CBD copy and Air Cargo copy). Exporting coconut products to India requires 2 additional copies of the CUSDEC (excise copy and Coconut Development Authority copy). Apart from these, export permits or licenses are required when exporting: timber, motor vehicles, tea, antiques, plants and animals, etc. The Commercial Invoice, Shipping Note or Airway Bill (depending if export is by ship or air), Boat Note, Mate Note, Cargo Dispatch Note, Certificate of Origin also need to be produced in order to complete export documentation.

In case of importing goods from India to Sri Lanka, up to seven copies of the CUSDEC form have to be submitted as warrant copy, delivery copy, statistical copy, exchange copy, consignee’s copy, R.M.V. copy for motor vehicles and excise copy (if required). The Commercial Invoice, Delivery Order (DO), Bill of Lading (BL), Exchange Documents and the Packing List need to be submitted with the CUSDEC when clearing goods. Apart from these documents, depending on the goods that are being imported the Certificate of Origin (CO), Import Control License (if applicable), Certificate of Registration and Translation for Used Motor Vehicles, Load Port Survey Certificate for Food Items, S.L.S.I/Quarantine Certificate (where applicable) and Catalogues/literature also need to be attached.

Further to the above documents, for processed food items the Certificate from the Health Ministry and Atomic Energy authority need to be taken. Other than above the Quarantine Certificate and the Certificate from the Sri Lanka Standard Institute should be taken for food items. The most cumbersome document to be obtained is reported to be the ISFTA, which gives the detailed cost breakdown. When clearing imported cargo from India it is found that documents contain errors and this causes more delays.
While the number of documents required to process exports has remained the same over the period, the number of documents required to import has come down significantly from 13 in 2006/07 to 6 in 2008/09. Time taken to process both export and import documents has also reduced by 4 and 7 days respectively over this period. However the cost of processing these documents has increased during the period.

Nevertheless, these improvements in reducing delays has improved Sri Lanka’s country ranking from 99 to 66 from 2006/7 to 2008/9. This has largely been attributed to the fast tracking of the Sri Lanka Automated Cargo Clearing System (SLACCS) during this period. The primary objective of initiating this project was to improve local cargo clearance processes & procedures by reengineering the existing business processes and thereby providing substantial cost savings and convenience to the trading community while ensuring maximum controls with the relevant stakeholders from both the state and private sector.

Testing has not become a major problem to any party. All of the respondents identify the importance of testing and are agreed that testing should be done accordingly. Customs have the responsibility to test the goods to see whether they are as stated in the CUSDEC. In addition in the case of food items random samples are also tested by the relevant authorities. This does not appear to have caused many problems to exporters.

The D Branch of the Sri Lanka Customs is responsible for the classification of goods. All the HS Codes are published in the D Branch report. It is stated that customs officers are usually knowledgeable on the trade agreements and that there are few problems in this area. It is also stated that when the ISFTA Certificate is there the customs officers shows some consideration to the exporters and importers in the Sri Lankan end. But in India there is no such consideration given to the exports from Sri Lanka.

The Port of Colombo is reportedly one of most secured port in the world. All cargo for export is opened up for security checks by the Sri Lanka Navy at the point of entry to the port. These containers are then re-sealed with the agent’s seal which would remain intact until the departure from Sri Lanka.

In case of air cargo exports, the cargo is examined at the Air Cargo Village- Katunayake by the Customs Officers prior to handing over the cargo to the handling agent for loading to the aircraft.
Container Security Initiative (CSI) also commenced at the Port of Colombo in 2005. The officers of Sri Lanka Customs carry out the operations of this X-ray inspection site located. When a container is required to be subjected to physical inspection, Sri Lankan Customs officials notify the vessel agent to notify the shipper who is required to send a representative to be present at the time of inspection.

6.4 STANDARDS

Standards regarding the product, process, packaging and labeling play a vital part in international trade. As this research considers only two types of goods as a sample, the following issues relating to those two particular products, food items and textiles are reported as follows.

Normally, India does not require many standards apart from the general quality standards which is expected from the customer. Sri Lanka does not have much textile exports to India compared to import of textiles to Sri Lanka. For processed foods, the relevant agencies from the Health Ministry perform these tests and provide the necessary certificates. For example, bread improvers which are exported to India require a certificate from the Health Ministry and a radiation level certification from the Atomic Energy Authority.

The process of obtaining these certificates costs both time and money. As these are usually issued by government agencies, delays are common leading exporters to offer bribes to expedite the testing. The regulations covering standards and testing procedures have not improved or been changed over several years. Implementing a harmonized standards has also not happened due lack of an agreed common standard.

According to South Asian Free Trade Agreement (SAFTA) there are some standards specified for exporting goods to India from Sri Lanka. These standards mainly apply with respect to Certificate of Origin of shipment. The rules of origin, according to SAFTA, stipulates that foreign content of goods should not exceed 60% of the f.o.b. value of the finished good if produced in a single country, and 50% if several members are involved under regional cumulative rule.

Exports of tea to India are subject to quality check prior to being exported. But those shipments can only be cleared at specified ports in India where testing facilities have been made available. Actually Sri Lankan garments also face to this kind of burdensome regulations under the SAFTA. These increase transport and handling costs making any trade advantage within SAFTA superfluous.
6.5 **Trade Policy**

Trade policies between two partner countries are directly affecting the trading system. South Asia Free Trade Agreement (SAFTA) was introduced in July 2006 to facilitate trade within South Asian countries. However respondents from exporters, importers, freight forwarders and transporters were of a negative opinion of the benefits of this agreement for their trade. In this context it is reported that even though ISFTA provides for duty free trade, there are several hidden surcharges in the agreement when trading with India. For example, Sri Lanka offers high quality tea to the international market. This is very important in order to capture the world market over other competitors offering high quality teas. But, within the ISFTA Tea Bags cannot be exported under Duty Free terms to India. There is no declaration in the agreement about the method that tea should be exported to India, whereas it mentions that when tea is exported in Tea Bags rather than as bulk tea, the exporter will have to pay a high duty and taxes. Hence, Sri Lankan exporters have to transport tea as bulk product to India without value addition in Sri Lanka or under the Sri Lankan brand resulting in Sri Lankan tea exporters being unable to gain a brand advantage in Indian markets. Furthermore, it is reported that Indian tea exporters blend Sri Lankan tea sent in bulk format with their own tea and export Tea Bags under their own brand names at cheaper prices to other countries. Therefore, most exporters had stated that they were not capable of reaping the benefits of the ISFTA.

There are several issues relating to the quota system for garment exports as well. It is stated that it is very difficult to obtain relevant quota documents from the respective governments and that they often decline imports and exports with India.

It was also mentioned there were no specific benefits under the Most Favoured Nation (MFN) terms to Sri Lanka. Most of the people were not even aware about the MFN terms either. Even though there are several conditions under which MFN status could be claimed, there are often restrictions on ports to which such commodities could be exported to in India which are in some cases congested and inefficient. For example India does not allow some types of containerized cargo to be imported through every port. Instead a port of importation is suggested. In Sri Lanka there are no restrictions to access the Port of Colombo for all types of imports and exports.

The Rules of Origin Certificate have to be obtained from the Department of Commerce which needs to submit a cost statement in order to provide this certificate. This procedure is cumbersome and
takes time to prepare, because each and every single cost item should be included in the statement. It is reported this delay at the Department of Commerce is considered unsatisfactory since the Rules of Origin Certificate is a necessary document for exports to India.

There are also complaints that under the FTA Indian produce arrive in Sri Lanka at a low price. Exporters say that this facility is not reciprocated in India usually through custom practices which delays goods, especially perishable items. Respondents have given many bad experiences where they have suffered losses.

6.6 Business Mobility

There are usually no problems regarding obtaining travel visas to travel to India for business. Even though earlier there were difficulties in obtaining visas the procedures have developed over the last five years and getting a visa has become quite easy. Usually, the people who engage in business with India obtain their visas from the Indian High Commission, even though this facility is also provided by the Chamber of Commerce a fact most people are not aware about. However some small scale exporters have responded that they do not get the same facility extended to reputed exporters and have to wait several days. Most of them also appear to be unaware about the SAARC Visa Exemption Scheme and its facilities.

6.7 Transaction Costs

Transaction Costs are reported to have increased during the last five years. The terminal handling costs also have been increased dramatically. Most of the people complain about the unnecessary costs involved in giving bribes. For example following are the non-receipted payments that one particular respondent has identified:

- Entry Passing
- Entry Numbering
- Boat Note
- Panel Inspection
- Health Certificate
- Photosanitary Certificate
- Container Demounting
- Container Removal Out

Transaction costs in Sri Lanka are reported to be high but comparable to other countries in the region such as India, Pakistan, and Bangladesh. This is because of high inland transport cost, inefficiencies at ports and shipping and restrictive transport and security procedures. It also takes more time to clear a container when compared to East Asian countries such as Singapore, Malaysia etc.
APPENDIX

Sri Lanka's performances with Asian countries indicate favourable results in trading across borders. But compared to international best practices, Sri Lankan indicators show negative status, which need to be recognised for relevant actions to be taken.

Benchmarking Sri Lankan performance with South Asia

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