



Technical Assistance Consultant's Report

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Democratic Socialist Republic of Sri Lanka: National Port Master Plan (Financed by the Japan Fund for Poverty Reduction) The National Port Directions – Volume 1 (Part 6)

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Asian Development Bank

Warehousing and storage area: reach truck

A reach truck is a typical type of forklift that is used in warehouses to stack pallets up to 10 to 15 m high. Based on the specific technical design, a reach truck only needs very limited manoeuvring space, hence narrow aisles can be designed in order to optimise the stacking capacity of the warehouse.

Similar to the electric pallet truck, a reach truck is electrically driven, with battery capacity allowing for an 8-hour operations shift without the need to recharge. This enables flexible planning and organisation of the available resources within the logistics warehouse.

Operational setup and organisation

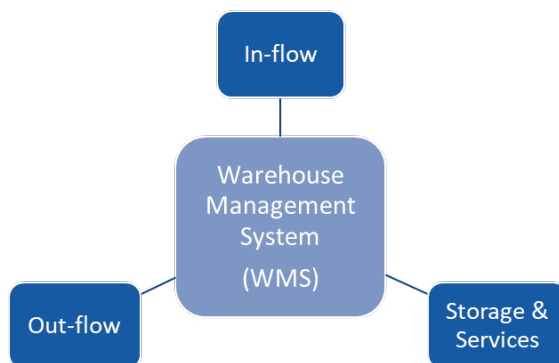
Similar to a container terminal, a logistics warehouse is managed by a warehouse management system (WMS). The WMS system records every activity or process and manages all the individual (pallet) stacking positions within the warehouse. Additionally, the WMS system can be used to manage stock or inventory levels.

Figure 9-5 Reach Truck



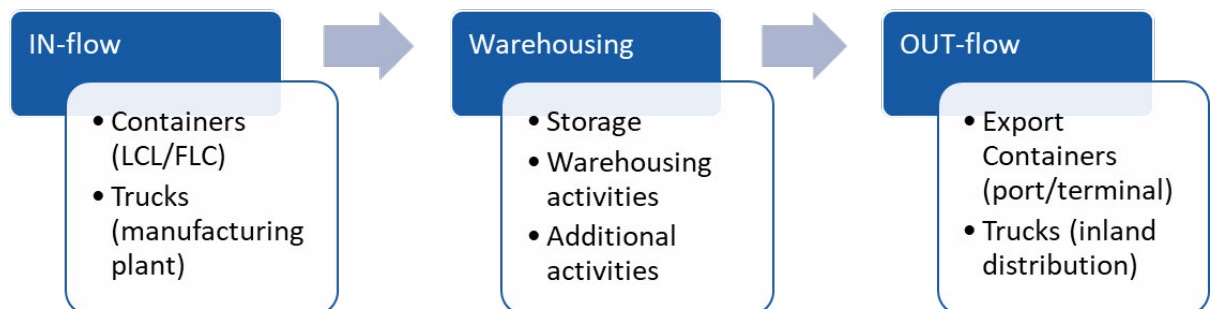
A basic overview of a warehouse management system setup is shown in the figure below.

Figure 9-6 Warehouse Management System



Subsequently, Figure 9-7 provides a high-level visualisation of the operational processes within a logistics warehouse.

Figure 9-7 Warehouse Logistics Process



Three main flows can be identified:

- Incoming flow: products or goods discharged from a truck or unloaded from a container.

- Warehousing cargo flow: storage of the palletised goods within the warehouse and – if applicable – registration/follow-up of additional value added activities like re-packing, labelling, price-marking, etc.
- Outgoing flow: products or goods leaving the warehouse via truck or loaded into a container.

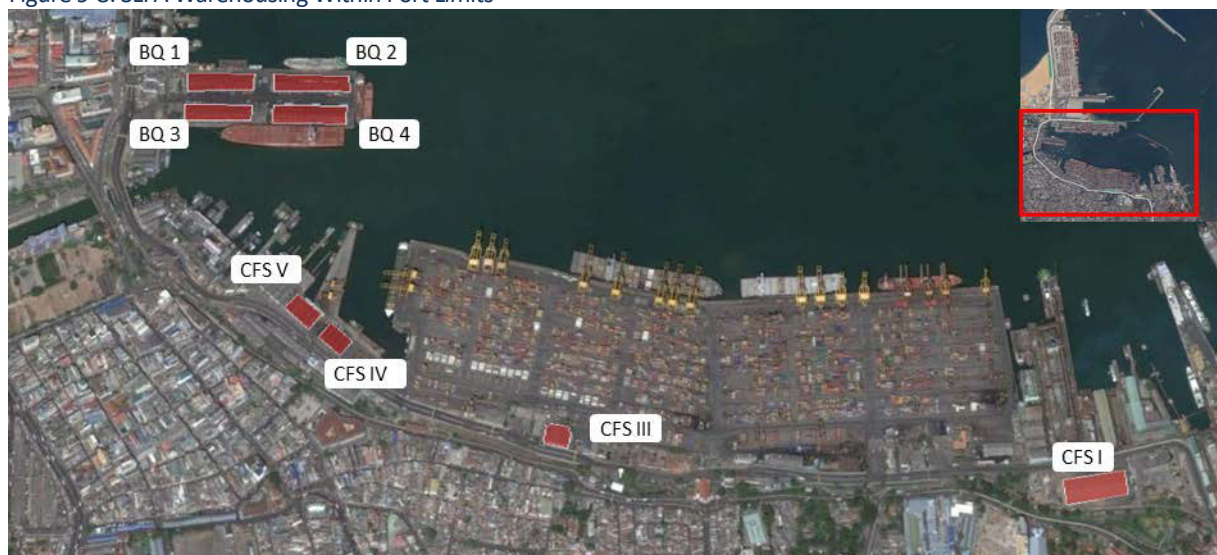
The use of pallets is one of the basic and most fundamental requirements of modern warehousing activities and operations. All incoming cargo or products that are not yet palletised need to be stacked on (standardised) pallets during or directly after unloading a truck or un-stuffing a container. A dedicated follow-up of pallet stock management is of paramount importance to carry on the logistics activities.

After palletising the goods, the content of each pallet needs to be inventoried and this data needs to flow into the warehouse management system. This can be done either manually, with barcode readers or with mobile data terminals, or automatically. Subsequently, the warehouse management system will determine a suitable stacking location for each of the pallets, depending on the stacking dimensions and the corresponding weight.

9.3 Current Situation

The figure below displays SLPA warehouses within port limits, with CFS I recently being constructed.

Figure 9-8: SLPA Warehousing Within Port Limits



Description	Type of Cargo	Capacity (m ²)
BQ1	General non-dangerous cargo	5,000
BQ2	Local cargo/Transshipment/Dangerous cargo	5,000
BQ3	General non-dangerous cargo	5,000
BQ4	Transshipment/MCC cargo	5,000
CFS I	General /Dangerous Cargo	7,000
CFS III	Bonded Cargo	1,300
CFS IV	General Cargo	2,388
CFS V	Bonded Cargo	2,397
CFS-Peliyagoda*	General Cargo	19,500
Total		52,585

*Not in figure

Currently, SLPA handles all LCL cargo at the CFS warehouses within the port limits and at its warehouse at Peliyagoda (outside the port limit). Recently, the LCL cargo handling has been liberalised, meaning that private parties can perform these activities as well. There is no operational constraint for private parties to deliver the same service at an equal or lower price. SLPA should decide if, and at which scale, it wants to continue its LCL handling activities in competition with private parties. SLPA could also act as a landlord for a new warehouse tenant that operates the areas it is assigned to by SLPA.

The following short term developments will take place regarding these facilities:

- The construction of the passenger terminal at BQ will lead to the closure of the warehousing facilities per 2019. The dangerous cargo handling will shift to CFS I. For MCC cargoes, a new warehouse is required. If SLPA wants to continue its LCL operations on the same scale, warehousing adjacent to the new MCC location is possible.
- CFS III, IV and V are to be removed due to the construction of the elevated highway as per 2018. If SLPA wants to continue its LCL operations on the same scale, warehousing adjacent to the new MCC location is possible.
- CFS I has started operations in the course of 2017, as a replacement of the previous warehouse that burnt down.
- Peliyagoda will remain operational for LCL/FCL cargoes.

Peliyagoda

The Peliyagoda facility was originally a UDA facility; hence, it was not designed and built for the task it is used for today. As such, the Peliyagoda facility has several (solvable) bottlenecks:

- Space constraints inside and outside facility.
- Higher roof is needed.
- No high racks with fork lifts to operate the facility.
- Stuffing is taking place next to warehouse in a small strip causing congestion at the section.
- Several employees on the floor are not involved in operations.
- Cargo is stalled inefficiently.
- Safety procedures are not adhered to by staff (e.g. helmets and such).

There are gains to be made by investing in equipment and warehouse tools for the facility to make efficient use of the space available. For the facility to compete with private parties it should adhere to industry standards.

Figure 9-9: Log ventures Facility (left)* - Peliyagoda Facility (Right)



*The picture is used for marketing purposes and might not reflect reality on the floor, but it does show the added value of racks

The table below presents the key observations and recommendations regarding the Warehousing and Logistics activities.

Table 9-1 Warehousing & Logistics - Key Observations

Category	Issue	Severity
Infrastructure	Transit sheds are used as warehouses but are not adequately equipped to handle the MCC and LCL cargoes. Additionally, layout / spacing of the transit sheds is not suited for the current operations.	High
Operations	Operations are carried out through manual documentation.	Medium
Equipment	Equipment is outdated and in poor state.	Medium
Systems	There is a lack of an efficient automated warehousing system.	Medium

9.4 Warehouse Demand

The table below summarizes the key assumptions that have been applied in order to calculate the future needs of warehousing capacity.

Table 9-2: Assumptions on MCC and LCL development requirements

Item	Unit	MCC	LCL
MCC Share of Transshipment Cargo	%	0.3%	-
LCL Share of Gateway Cargo	%	-	2.1%
Operational Days	# days	365	365
Dwell time (average)	# days	6	6
Occupancy rate of facility	%	70.0%	70.0%
Free stacking height (warehouse)	m	7	7

It is assumed that both the MCC share of transshipment and the LCL share of gateway cargo will remain constant throughout the projection period. The table below presents the results of the capacity calculations.

Table 9-3 Capacity Requirement CFS area MCC/LCL

Item	Unit	2016	2025	2030	2050
TEU Forecast MCC	TEU	8,047	21,614	27,113	67,186
CFS Area Requirement MCC	ha	0,25	0,29	0,37	0,92
TEU Forecast LCL	TEU	27,297	46,350	56,966	84,059
CFS Area Requirement LCL	ha	0,37	0,63	0,78	1,15

Currently, MCC of transshipment boxes mainly takes place at the BQ2 and BQ4 warehouses. These activities are an important service to the transshipment business, as transshipment boxes can be reshuffled to optimise logistics. With the transformation of BQ into a passenger terminal, a new facility should be developed; the new location should be close to the container terminals to limit trucking distance to and from the warehouse.

Two hectares (20,000 m²) should be reserved immediately to ensure expansion options. The first phase should be a shed of approximately 8,000 m². The warehouse should be designed as high as possible to make best use of the land. In the area requirement calculations, a free stacking height of 7m is assumed. Possible locations for the new warehouse are discussed in the pre-feasibility for the BQ warehousing relocation in Colombo Port Development Plan.

9.5 Recommendations

Compared to the modern way of operating a logistics warehouse, the current SLPA infrastructure and corresponding operations are lacking efficiency. In order to increase the stacking density and upgrade the performance of the logistics services, palletising of the incoming and outgoing flows of goods is considered an absolute requirement. This service can be offered (and charged for) in case the incoming goods arrive at the SLPA CFS area in a non-palletised form.

The following recommendations can be made regarding SLPA's warehousing design and development:

- R1. Port of Colombo: Design and construction of a **new warehouse to cover the MCC** operational requirements in the future.
- R2. Port of Colombo: Investment in new equipment (pallet trucks, reach stackers) to **operate the logistics warehouse**.
- R3. Port of Colombo: Procurement of a modern, state-of-the-art **Warehouse Management System (WMS)**.
- R4. All Ports: Apply the Warehouse Management System (WMS) to new warehouse developments.

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10 Trade Facilitation

10.1 Introduction

This chapter describes the trade facilitation. Trade facilitation is the simplification and harmonisation of international trade procedures. These trade procedures are defined by the World Trade Organisation (WTO) as the “activities, practices and formalities involved in collecting, presenting, communicating, and processing data required for the movement of goods in international trade”.

In practice, this narrow definition is often extended to address a wider agenda in trade development and includes: trade policy issues, improvement of transport infrastructure, transparency in government transactions, modernisation of customs administration, removal of other non-tariff trade barriers including tax and standards issues and export marketing and investment promotion.

For this reason, SLPA would need to consider a variety of trade facilitation topics and issues in parallel to infrastructure developments to increase the port capacity and competitiveness. Potential planning of extension of the port activities into trade and logistics hub type of projects would only further emphasise the importance of creating a competitive trade environment for traders and investors.

The following approach has been used for this chapter:

- Paragraph 10.2 describes the current situation in Sri Lanka;
- Paragraph 10.3 describes the institutional benchmarks on trade facilitation;
- Paragraph 10.4 provides the recommendations and way forward.

10.2 Current situation Sri Lanka

10.2.1 Trade Policy and Tariff Regime

Exports and Imports

Sri Lanka has been extensively promoting exports since the late seventies when it moved decisively away from protectionist import-substitution trade policies. The export of manufactured goods grew rapidly, at around 20% annually, between 1976 and 1984, and 16% annually between 1989 and 2000. The Board of Investment (BOI) was established and continued to be used as a strategy to encourage Foreign Direct Investment (FDI) and boost manufacturing exports.

However, since 2000 taxes on imports were increased with the imposition of a range of new taxes, as well as increases in the rates of existing tariffs. The Customs Surcharge was introduced in 2001, the Ports and Airports Development levy imposed in 2002, and the Regional Infrastructure Development Levy (RIDL) introduced in 2007. Rates of the Commodity Export Subsidy Scheme (Cess), Nation Building Tax (NBT), Social Responsibility Levy, Special Commodity Levy (SCL) and VAT were progressively increased.

Although many exporters have exemptions on Customs duty, they are liable to pay other tariffs. These tariffs are thus a tax on exports, making Sri Lanka relatively uncompetitive vis-a-vis its peers. Consequently, the export performance also worsened. It has fallen steadily from a high of 33.3% to about 12.7% of GDP in 2016.

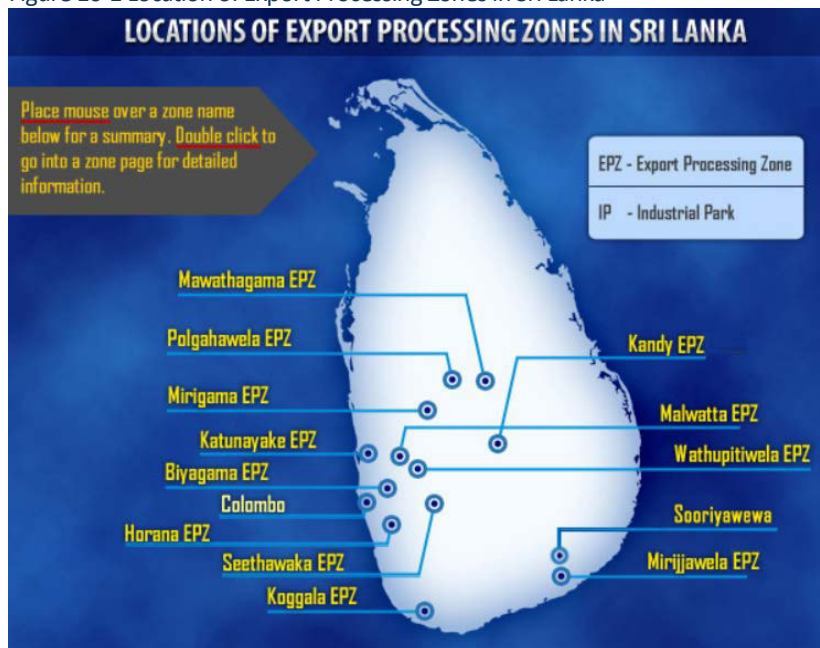
In addition, export development faces structural constraints in terms of the low level of manufacturing and value added to effectively compete with other Asian economies as reflected by the UN Industrial Performance Index – IPI. The IPI considers countries’ productive capacity, the intensity of industrialisation and impact on the

world market. In the past 15 years, Sri Lanka went down six places in rank and currently holds position 75 out of 148 countries.

Export Processing Zones - EPZs

Currently, the Board of Investment administers 14 locations for Export Processing Zones (EPZs), i.e. industrial parks with preferential tax treatment and special economic zones. BOI administered zones – 14 locations. These locations are indicated on the figure below. Two additional zones i) MAS Fabric Park, Thulhiriya for Apparel and Related Industries and ii) Orion City IT Park in Colombo for knowledge services are privately administrated.

Figure 10-1 Location of Export Processing Zones in Sri Lanka



Source: NES

Free Trade Agreements (FTAs)

Sri Lanka has signed bilateral FTAs with India and Pakistan. End of January 2018, Sri Lanka signed a third FTA with Singapore. In addition, Sri Lanka is a member to four multilateral agreements: Agreement on South Asian Free Trade Area (SAFTA), Agreement on Global System of Trade Preferences (GSTP), South Asian Association for Regional Cooperation (SAARC) and Asia Pacific Trade Agreement (APTA). All FTAs enable customs duty-free trade for selected items.

In 2017, the EU awarded the Generalised System of Preferences (GSP) concession to Sri Lanka to be implemented until 2021. GSP is a preferential tariff system awarded to developing nations, to export goods to European markets at lower tariff rates. Under this tariff system, Sri Lanka has the opportunity to export 6,200 items to the European Union, tax-free. For example, 9.6% duty charged when exporting garments to the EU, will now be removed. Around 33% of Sri Lanka’s exports are directed to the European Union.

National Export Strategy - NES 2018-2022

In late 2017 the country designed a new National Export Strategy that embodies the desire to move up on the income ladder as a modern, innovative economy driven by trade.

Figure 10-2 NES 2018-2022 – Strategic Objectives and Priority Sectors



Source: NES

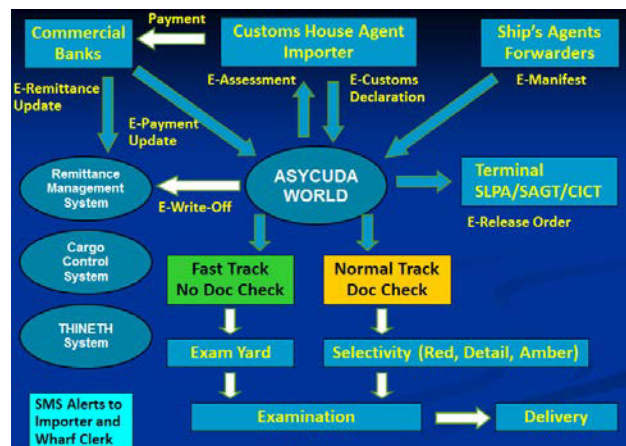
10.2.2 Institutional Development for Trade

In June 2014, Sri Lanka set up its National Trade Facilitation Committee (NTFC) to meet the requirements of article 23.2 of the TFA. The Committee is composed of 12 Government agencies and 7 PS Chambers and has the mandate to coordinate interagency activities for implementation of the TFA and other trade facilitation initiatives in Sri Lanka through public-private cooperation. NTFC is chaired by the Director General of Customs & Co-chaired by the Director General of Commerce and supported by the Cabinet Committee on Economic Management (CCM) and Ministry of Economic Strategy and International Trade (home ministry). SLPA is one of the leading members of the Committee, and if actively engaged, it would have an opportunity to accelerate its trade and logistics agenda. The NTFC is a key facilitator for the introduction of the Single Window with the blueprint expected in late 2018 and the Trade Portal establishment that is expected in July 2018.

Figure 10-3 Status of Automation at Customs

10.2.3 Customs modernization

Sri Lanka Customs implemented ASYCUDA-World, though without national electronic single window functionality. The port system is limited and restricted to stakeholders participating in the logistics operations. Even there, the delivery order is still manual and not automated. Even with the use of ASYCUDA-World at Customs, there is still a reliance on paper documentation, resulting in duplication of information submission, additional costs and delays.



In addition to ASYCUDA-World, Customs has a number of automation systems: a cargo control system, a remittance management system, and the THINETH system (see figure below). Implementation of functional connections to the ASYCUDA-World single window has been ongoing as well

as the development of new electronic processes. For instance, the process of handling certificates of origin is being automated at the Department of Commerce (DOC) and the electronic signature has been introduced in accordance with the E-Government Policy.

Strategic guidance and oversight of the development of a national electronic single window operation are organised through a steering committee that reports to the NTFC.

10.2.4 Logistics Facilities

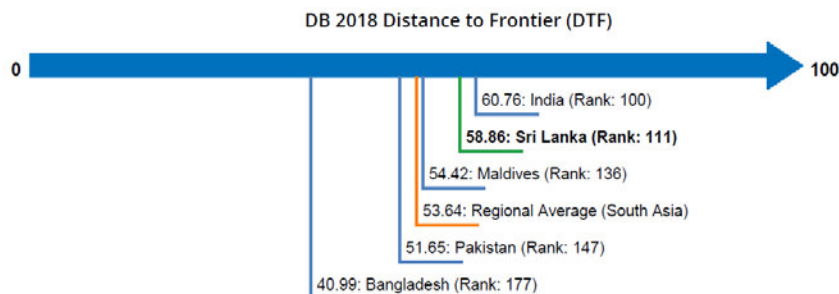
Large investments have been made in the logistics sector since the end of the conflict, particularly in the development of Colombo Port. More investments are in the offing through the Colombo South Port Expansion Project – which is expected to increase capacity by 160 percent – and the Hambantota Port Development. The Hambantota Port Development has made Sri Lanka an important transshipment hub for the Indian car market, with about 15,000 vehicles being handled each month.

The Katunayake airport continues to be a key passenger and cargo-handling destination in South Asia and the national airline is a leading carrier of passengers into the Indian sub-continent.

10.2.5 Sri Lanka in WB Doing Business Report

The Doing Business project provides objective measures of business regulations and their enforcement across 190 economies. Sri Lanka is ranked 111 in DB 2018 report and scored 58.86 on DTF indicator²² which places it among the leading countries in the region, surpassed only slightly by India.

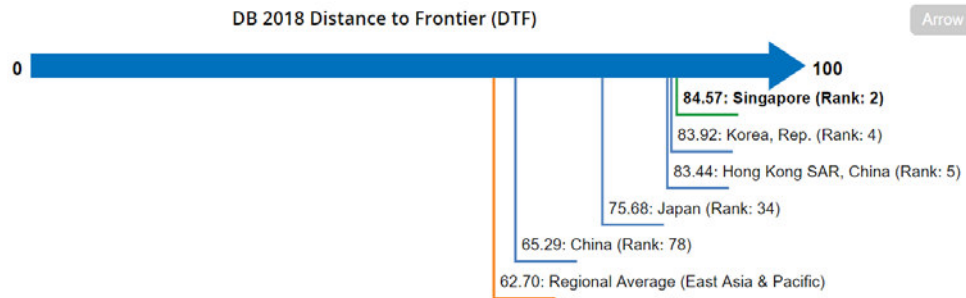
Figure 10-4 DB 2018 Sri Lanka Ranking



However, compared to its more developed Asian competitors in port and logistics business – as shown in the below figure – Sri Lanka lags behind. Singapore ranks 2 with DTF 84.57; South Korea ranks 4 with DTF 83.92 and China ranks 78 with DTF 65.29.

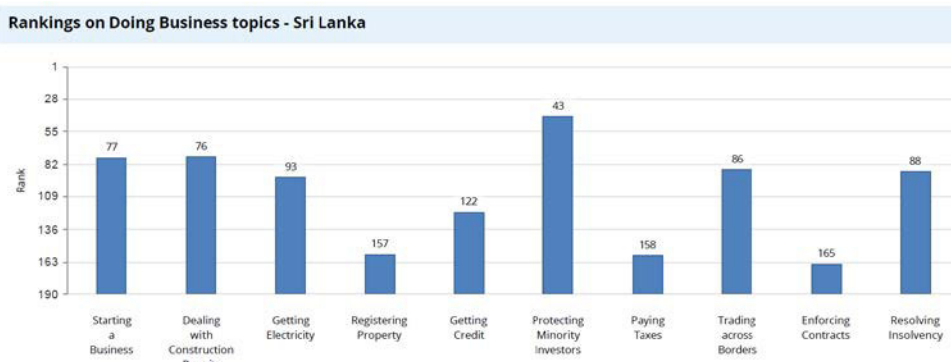
²² The distance to frontier (DTF) measure shows the distance of each economy to the “frontier,” which represents the best performance observed on each of the indicators across all economies in the Doing Business sample since 2005. An economy’s distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier. The ease of doing business ranking ranges from 1 to 190.

Figure 10-5 DB 2018 ranking of Sri Lanka competitors



The overall ranking is a composite index consisting of ten indicators, each representing a different aspect business environment. Sri Lanka scores relatively higher in areas such as protection of minority investors, starting a business, dealing with construction permits and scores low in the areas of registering property or payment taxes.

Table 10-1 Sri Lanka Ranking Per DB Indicator



Trading Across Borders is a useful indicator to analyse, particularly for SLPA, as it shows the functioning of the border systems. It measures the time and cost (excluding tariffs) associated with three sets of procedures – documentary compliance, border compliance and domestic transport – within the overall process of exporting or importing a shipment of goods.

Sri Lanka 2018 score is 86 which is the best result among comparator economies in the region (South Asia rank 126), but poor in comparison with the main port transport and logistics competitors such as Korea and Singapore (Table 10-2). The result for China is somewhat misleading as the WB DB report considers a country as a whole and does not provide separate measurements for the main logistic centres.

Table 10-2 DB Trading Across Borders Indicator Comparison

Economy	Trading Across Borders DTF	Trading Across Borders rank
East Asia & Pacific	69.97	102
South Asia	58.32	126
China	69.91	97
Korea, Rep.	92.52	33
Singapore	89.57	42
Sri Lanka	73.29	86

The ranking in WB DB report is widely accepted by investors and governments as a general reflection of the state of the business environment. Sri Lanka’s overall rank for 2017 is 110. This implies that many areas require further improvement.

10.3 International benchmarks

10.3.1 Customs single window

China

The development started with the Shanghai’s single window that was introduced nationwide in 2017. For the nationwide integration, the approach was adopted for each port authority to design its own integration reform as the foundation. A Single Window was then rolled out as the common platform on the 3M principle: Mutual exchange of information, Mutual recognition of control, Mutual assistance of enforcement.

The system now serves more than 200,000 companies every year and covers all trade ports with a total of 35,000 registered users and more than 100,000 daily declarations. It is operating under the management of the General Administration of Customs (GAC) and combines the functions of 11 agencies and provide 129 services ranging from declaring goods to checking business qualifications.

Singapore

The Singapore’s National Single Window was launched in 1989 under name TradeNet. It allows various parties from the public and private sectors to exchange trade information electronically and integrates import, export and transshipment documentation processing procedures and enables the trade and logistics communities to fulfil their trade formalities.

Through TradeNet, Singapore Customs and other Competent Authorities monitor the movement of goods and enforce health, safety and other regulatory requirements. The introduction of TradeNet reduced the cost and time to prepare, submit and process trade documents, expedites the clearance of cargo and allows fees and taxes to be deducted electronically (Table 10-3).

Table 10-3 Time and cost savings with TradeNet

	BEFORE TRADENET®	AFTER TRADENET®
Processing time/permit	2 – 7 days	1 min or less
Fees charged	S\$10 – S\$20	Less than \$5
Number of documents	3 – 35 docs	1 eForm/eDoc
Documents processed per day	approx. 10,000	more than 30,000

Source: Singapore Customs Authority

In 2007 Singapore launched TradeXchange, a Next-Generation of TradeNet®, designed as a multi-agency initiative led by Singapore Customs, Economic Development Board and Development Authority of Singapore (IDA). It is a neutral and secure trade platform that facilitates the exchange of information within the trade and logistics community functioning as an extended Single Window. It offers a single electronic window for integrated workflow, submissions and enquiries to the Sea Ports, Airports, Maritime Authorities, Customs and Competent Authorities

South Korea

The Korea Customs Service (KCS) has been operating a web-based clearance system 'UNI-PASS' since October 2005. It is all-in real-time trade facilitation system including the customs and national security information system. Development was gradual starting in the 1980s with the development of a large one-stop system and continuing in the 1990s with the introduction of Electronic Data Interchange (EDI) applications. When UNI-

PASS system was finally launched, it incorporated all previous developments in a web-based clearing system. Recently, UNI-PASS was further developed as a “smart system” with mobile, RFIDs and cloud solutions.

The UNI-PASS support system encompasses seven modules including: EWACS (Early warning and control system), IRM (Integrated Risk Management), CDW (Customs Data Warehouse), Data Mart (Data Intelligence Integration), KMS (Knowledge Management System), PMS (Performance Management System) and APIS (Passenger Information System).

10.3.2 Authorised Economic Operators (AEO)

An AEO is a member of the international trading community that is deemed to represent a low Customs risk and for whom greater levels of facilitation should be accorded. All countries that introduced the AEO as one of the risk management tools recorded significant reduction clearing times for containers.

The SAFE Framework of Standards to Secure and Facilitate Global Trade (the SAFE Framework) which was introduced in 2005 by the World Customs Organization (WCO), identifies standards and principles for adoption by all WCO members. More than 160 countries have implemented or have indicated their intention to implement the SAFE Framework, key elements of which are the concepts of Authorised Economic Operator (AEO) and Mutual Recognition.

While the countries choose different AEO modes depending on the number of operators and management difficulty, they all introduce rigorous approval procedure of the applicants and extended benefits for the authorized companies. Typically, the AEO model would consist of an export scheme having supply chain security as its principal focus and an import scheme having trade compliance as its principal focus. Both could be open to traders and service providers and membership of both should be voluntary.

The AEO concept is also emerging as a component of Free Trade Agreement (FTA) negotiations, with many countries seeking to establish a framework within their FTAs to facilitate the negotiation of mutual recognition arrangements. The table below compares the AEO models introduced by Singapore and China as best practice in design and operation.

Table 10-4 AEO Models compared Singapore and China

AEO Model	Singapore	China
Eligible Businesses	Singapore companies involved in supply chain activities (e.g. importers, exporters, warehouse operators, transporters, and terminal operators)	Customs brokers, consignors, consignees and processing trade enterprises. Logistics and transport companies are excluded
Focus	Imports and Exports, accrediting companies' security provisions	Imports and Exports
Types of Certification	two levels of certification: STP and STP-Plus.	5 classes where class A and AA is AEO status
Number of Participants	78 STP and 86 STP-Plus companies	3000 AA and 30000 A companies
Authorisation conditions	Security management system, risk assessments of their business operations, measures to secure supply chains,	Verification audit by customs; based on 35 criteria; from 4 categories (internal control, finance, compliance-record and security)

Mutual Recognition

Canada, Hong Kong, China, USA, Japan,
South Korea, Taiwan, EU

Singapore, USA, Japan, South Korea,
EU (pilot project)

10.3.3 Customs Duties and Taxes on Imports

Multiple of taxes imposed on importers in Sri Lanka are already described in paragraph 10.2.1. This section provides a comparison of the tariffs and taxes for importers in Singapore, China and South Korea. Singapore stands out as the only country without customs duty. On the other hand, Sri Lanka has the highest duty of the three countries combined with the highest effective VAT of 16.5%. Details on duties and taxes are provided in next table.

Table 10-5 Comparison of Customs duties and taxes

Description	Sri Lanka	Singapore	China	South Korea
Customs threshold	\$3,200 (500,000 R)	\$300 (SGD 400)	\$800 (CNY 5,000)	\$140 (KRW 150,000)
Average Customs Duty	Four-band tariff – max 30%	Duty free (except cars, gas, tabaco/alcohol)	8.4%	8%
Value Added Tax	15% (on 110% of invoice amount),	7%	17%	10%
Excise Tax	22 % (other taxes PAL, ESC)	3%-50% (cars lower tax, alcohol/tabaco high)	3%-50% (cars lower tax, alcohol/tabaco high)	10-20% on luxury items
Products having a higher customs tariff	CESS 8%	Duty free	3% to 80% import of automobiles high	agricultural products, seafood, tobacco, textile and clothing
Preferential Rates	FTA countries: India , Pakistan + multilateral agreements South Asia SAFTA, Asia-Pacific APTA	FTA countries: China, India, Japan, Korea, New Zealand, Panama, Peru, Australia, Costa Rica, Jordan, Turkey, USA, Sri Lanka	FTAs countries ASEAN, Singapore, Pakistan, New Zealand, Chile, Peru, Costa Rica, Iceland, Switzerland, Hong Kong, Macao, Taiwan. Korea and Australia.	FTA countries: Singapore, USA, EU, Chile
Customs Classification	HS	HS	HS	HS
Payment:	At the time of Custom Clearance	Taxes paid electronically via GIRO payment system	Tariffs and taxes must be paid at the time of importing	In Korean Won 15 days after custom clearance

10.3.4 Specific policies by foreign competing ports for developing trade and logistics hub linked to the port

China: the success in turning Shanghai port into a major world trade hub

China’s national strategy is to use Special Free Trade Zones (SFTZ) as a pilot test area for undergoing reform and testing new policies for FDI. One of the most successful zones is Port of Shanghai - Waigaoqiao Free Trade Logistics Park. The zone is located next to the port, covers 1.03 square kilometres and is the first site in China to integrate the function of a bonded area and a port. That allows companies to benefit from policies in both areas.

Figure 10-6 Waigaoqiao Free Trade Logistics Park



Objectives

- The priorities of the zone are to explore new routes and systems for China's opening-up policies, to accelerate the transformation of how government functions, to promote economic restructuring and to prioritise development steps to ensure effective but stable growth;
- Promotion of the city as a logistics hub.

Strategies

- Integrate the functions of a bonded area and a port;
- Amalgamation of four bonded zones—the Waigaoqiao Free Trade Zone, Waigaoqiao Free Trade Logistics Park, Yangshan Free Trade Port Area and Pudong Airport Comprehensive Free Trade Zone;
- Shaking the traditional concentration of logistics operations in the city's Hongkou District, where more than 3,500 companies in related industries contribute roughly 28 percent of the district's GDP.

Policies

The FTZ's original Framework Plan introduced several key policies in direct connection with the logistics industry: free trade logistics park.

Develop transshipment business

Although in terms of cargo volume, Shanghai is the world's busiest port only 5.5% of cargo was classified as international transshipment, compared with over half of shipments in Hong Kong. With the simplified Customs procedures adopted in the FTZ, this imbalance is likely to correct itself over the coming years.

Encourage production and logistics companies to establish in the zone

One of four bonded zones comprising the FTZ, Yangshan Free Trade Port Area offers state-of-the-art facilities and exemptions on import tariffs as long as goods remain within the zone. The port features 16 modernised berths with a total quay length of 5.6 kilometres and is joined to the mainland by the 32.5 km Donghai Bridge. Expansion of the port to a total area of 14.16 km² is completed in 2015, adding seven additional 50,000 to 70,000-ton berths. All companies registered before this date engaged in the domestic carriage, warehousing, or loading and unloading services can obtain an immediate refund of the levied taxes.

Benefits

The zone offers national treatment of foreign companies, facilitation of trade and investment process through financial incentives, simplified approval process through one-stop commercial registration and simplified outbound approvals. For the services sector the activities in the zone would mean fewer constraints in business scope, relaxation in the shareholding limit and less stringent eligibility requirements.

Since the official launch of the Shanghai Waigaoqiao Free Trade Logistics Park in 2013, the zone has more than 4600 companies registered of which 280 foreign companies. The major banks such as HSBC, Deutsche Bank and Citibank opened branches in the zone as well as some of the largest world corporations such as Microsoft and General Electric.

Singapore: success of being a hub port in a vibrant location

Singapore has ten free-trade zones (FTZs) in five geographical areas operated by three FTZ authorities: PSA Corporation Limited, Jurong Port Pte Ltd and Changi Airport Group (Singapore) Pte Ltd. The FTZs, which include port facilities, air cargo terminals, and logistics areas, may be used for storage and repackaging of import and export cargo, and goods are transiting Singapore for subsequent re-export. Manufacturing is not carried out within the zones. Foreign and local firms have equal access to the FTZ facilities.

South Korea: Distribution Park Busan

Busan is one of the country’s most successful free economic zone projects linked to port. It covers an area of almost 53 km² in Busan-Jinhae area (Busan Economic Zone). It is designed as an international logistics hub with globally competitive industrial infrastructure.

International logistic hub

Busan connects major feeder ports including 63 in Japan, 40 in China and six in Russia, handling transshipment for imports and exports. It has Busan-Gimhae International Airport, which won the Top Asian Airport Efficiency Excellence Award in 2014, offering a logistical advantage. By 2020, the New Port will have a total of 45 container berths with the capacity to handle more than 22 million TEU.

Industrial infrastructure

Approximately 90 percent of Korea’s shipbuilding companies are located in the Busan area. They include Hyundai Heavy Industries, Samsung Heavy Industries, Daewoo Shipbuilding & Marine Engineering and STX. More than 50 percent of Korean automobiles are manufactured in Busan. The car manufacturers in Busan include the largest world brands such as Hyundai Motors, GM Korea and Renault Samsung Motors. In addition, around 40 percent of Korea’s machinery and mechatronics companies are located in Busan. Eighty percent of the local aviation parts supply is produced here.



The FEZs offer a range of attractive benefits for foreign investors and developers including exemptions or

Figure 10-7 Busan Economic Zone



reductions in corporate tax, income tax, tariffs, acquisition tax and property tax. A detailed overview of the offered benefits is provided in the table below.

Table 10-6 Benefits for Foreign Investors and Developers in KFEZs

 Foreign-invested companies in an KFEZs			
Category		Benefits	Investment Requirements
National tax	Corporate tax Income tax	Tax benefits for 5 years • First 3 years : 100% exemption • The following 2 years : 50% reduction	Manufacturing : \$10 million or more Tourism : \$10 million or more Logistics : \$5 million or more Medical institutions : \$5 million or more R&D : \$1 million or more Service : \$10 million or more
		Tax benefits for 7 years • First 5 years : 100% exemption • The following 2 years : 50% reduction	Manufacturing : \$30 million or more Tourism : \$20 million or more Logistics : \$10 million or more R&D : \$2 million or more
	Tariff	100% exemption for 5 years	Imported capital goods only
Local tax	Acquisition tax	100% tax exemption for up to 15 years in accordance with local ordinances	
	Property tax	Tax reductions for up to 15 years in accordance with local ordinances	
 Developer			
Category		Benefits	Investment Requirements
National tax	Corporate tax Income tax	First 3 years : 100% exemption The following 2 years : 50% reduction	Foreign investment of over \$30 million or a foreign investment ratio of over 50 %, and a total development project cost of over \$500 million development
	tariff	100% exemption for 5 years	Imported capital goods only
Local tax	Acquisition tax	100% tax exemption for up to 15 years in accordance with local ordinances	Foreign investment of over \$30 million or a foreign investment ratio of over 50 %, and a total development project cost of over \$500 million development
	Property tax	Tax reductions for up to 15 years in accordance with local ordinances	Foreign investment of over \$30 million or a foreign investment ratio of over 50 %, and a total development project cost of over \$500 million development

Source: Korean Planning Office of the Free Economic Zones

10.4 Recommendations and Way Forward

10.4.1 Trade policy and business environment

Policy and regulatory framework issues

At the outset, the SLPA should agree on a Roadmap for development of logistics hub. It should introduce a concept of one Sri Lanka trade and logistics hub that links ports and inland Export Processing Zones (EPZs). For the implementation, SLPA should actively engage with other government institutions through NTFC and other forums to provide policy support to major changes that would support the establishment of port linked EPZ and stimulate investments.

R1. Develop a Roadmap for the development of Logistics hubs.

The plan should address following identified issues:

- Reduction of fragmentation institutional network: the purpose is to reduce cost and time of import and export procedures. China has only 11 agencies that provide 129 services, from customs clearing to issuing Authorised Economic Operator (AEO) authorisation. Sri Lanka has more than 20 agencies;
- Defining operational guidelines: to implement new or updated regulations and legislation such as Merchant Shipping Act;
- Unified Customs duty: unify the existing Customs duty and other pare-tariffs (PAL, VAT, CESS, Customs Surcharge, etc.) into a single Customs duty;
- Information Technology Agreement: join the Information Technology Agreement of the WTO to create a free trade in electronics, to attract FDI to this sector as shown in the examples of Singapore and China.

Support EPZs development and FDI

In the planning of the port linked EPZ development, SLPA has at its disposal the best experiences of the most successful ports such as:

- R2. EPZ policies that attract investments from large logistic sector operators, banks and insurers as well as developers: national and local tax benefits including full exemption of tax for companies from priority sectors for up to 5 years with diversified investment threshold. Priority sectors for the port EPZ are food and beverages, spices and concentrates, IT/electronics and logistics;
- R3. Solutions for easy establishment of foreign labour: the EPZs should offer to investors the opportunity to employ foreign high-skilled labour with fast-tracked permit procedures and more relaxed labour laws regarding termination of the contract;
- R4. Lower investment threshold for manufacturing companies: manufacturing companies would have a lower investment threshold with the view of prioritising export sectors and value-added operations for the transshipment goods, especially targeting Indian sub-continent. The duration and size of the benefits will vary with the size of the investment. Detailed thresholds will be determined by better understanding type and size of companies with potential interest to establish in the EPZ;
- R5. Use of modern technologies: base development on use of modern technologies to connect logistic companies, institutions, industries and service providers – Port community, Single Window, Trade Portal, Integrated trade platforms;
- R6. Improve skills: improve skill base at SLPA through structured training programmes targeting skills required to run EPZs;
- R7. EPZ promotion programme: design a modern EPZ promotion programme based on geographical advantages; the opportunities offered to traders by signed FTAs, trade and logistics hub concept, stimulating trade policies and strong investment incentives.

Other trade facilitation recommendations relate to the customs operations and are mentioned in the Chapter on Customs.

11 Customs

11.1 Introduction

In this chapter the role of Customs is described. Customs has an important role for the nation as import duties and export duties are collected and protects the country against illegal practises.

“Customs are present in all major ports in Sri Lanka. Their function is key as the custom regulations and procedures to import and export commodities may hamper the physical flow of goods when not efficiently organised.”

The legal obligation is to declare all goods (imported and exported) correctly and pay the correct amount of duty before the goods are cleared and free circulations/ export is allowed. On goods, import and or export duties and VAT are to be paid.

The following approach has been used for this chapter:

- Paragraph 11.2 describes the institutional benchmarks on Customs practises;
- Paragraph 11.3 describes the current situation in Sri Lanka;
- Paragraph 11.4 provides the recommendations.

11.2 International best practice

The UNCTAD have adopted several guidelines to improve the effectiveness of Customs. The importance is to move towards digitalisation through E-Declaration and E-Clearance by use of the Single Administrative Document and supported by a Single (Customs) Window.

The international best practises are found in countries like South Korea, Singapore and in Europe. These countries have adopted systems which, generally speaking, strive for the same objective namely; *disconnecting the administrative flow for customs duties from the physical flow. At the same time the level of risks is to be determined, monitored and controlled by customs.*

Sample of South Korea

South Korea is using and own developed single window system called **UNI-PASS**. This is an all-in real-time trade facilitation system including the customs and nation security information system. It started with a large one-stop system in the 1980s emerged with EDI applications in the late 1990s. In 2005 the Uni-pass system was incorporated as a web-based clearing system and today it has been further developed as a “smart system” with mobile, RFIDs and cloud solutions. This means that the application can be opened at any PC, Smartphone or laptop device and is open each customer 24/7.

Uni-Pass system facilitates a one trillion USD of trade. About 180 million E-documents are processed real-time each year, serving 50 million passengers. The fully paperless and single window system saved an estimated value of USD 3.8 billion on logistic administration each year. Moreover, it reduced declaration and clearance time of goods from 48 hours in the past to only 1.5 hours. The export documentation time was reduced from 24 hours to only 1.5 minute.

Figure 11-1 South Korea Unipass



The system is organised with separate subsystems which interface with one Single Window and is compliance with international standards. The Uni-pass as single window has following supporting systems behind it:

Table 11-1 Unipass system elements

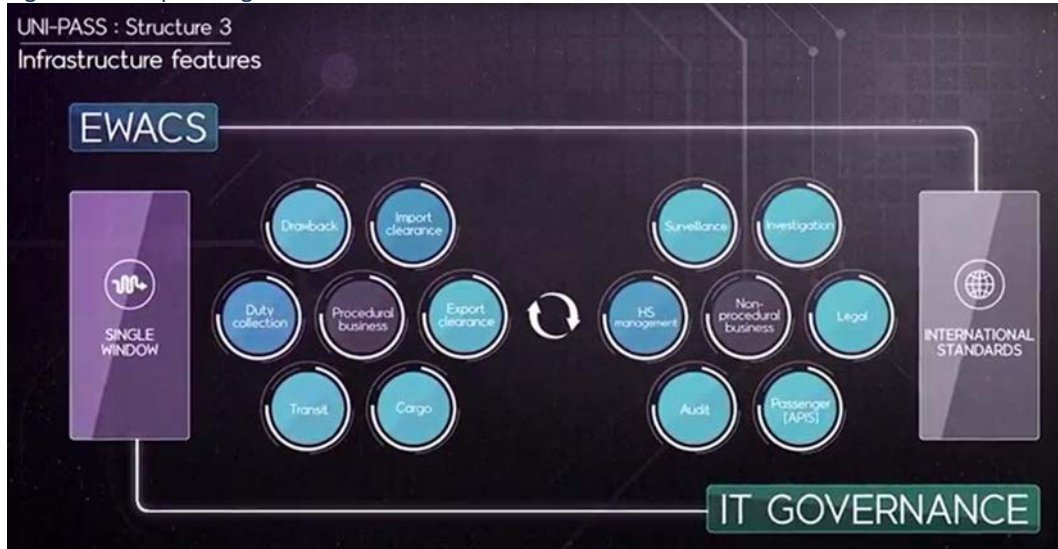
Uni Pass – Korea Single window support systems

EWACS (Early warning and control system)	A system for early warning and control of goods and passengers. The system warns possible threats whilst goods/persons are still to arrive at the border.
IRM (Integrated Risk Management)	The risk system is based on a two-track system (safe and non-safe). It is an intelligent system which applies different risk management levels and is sorting businesses to their compliance levels. The non -safe category is monitored and/or physically examined.
CDW (Customs Data Warehouse)	The data warehouse system collects all information on clearance of cargo, passenger investigations, surveillance and audits. The system also collects external information on companies audits and prepares national statistical information.
Data Mart (Data Intelligence Integration)	The data Mart system analyses all intelligent information by linkages of Company, Cargo and Traveller information and provides intelligence support to find and trace illegal actions.
KMS (Knowledge Management System)	The knowledge management system provides intelligent information from external sources linked with investigation.
PMS (Performance Management System)	The performance system shows real-time performances of the customs and national security divisions for managers.

APIS (Passenger Information System)

The Passenger information system is an integrated personal data intelligence tool.

Figure 11-2 Unipass Single Window



The system has the following main features:

- One-stop customs clearance at 24/7 along the distribution chain
- Paperless
- Single window for large and small companies
- E-Declaration
- E-Clearance
- E-Payments from banks and via internet
- No examination at the border unless regarded as “non-safe” and container are scanned
- Open to customers all-time 24/7
- Fast, reliable, trade facilitation
- Real-time integrated risk management control system
- Intelligent real time tracking systems
- Risk factors are analysed through risk profiles which threaten public safety and trade stability (tax evasion, illegal foreign-currency transactions, smuggling of hazardous items, weapons and origin laundry).

Figure 11-3 Unipass Risk Control

기업프로파일 Business Profile

본 기업프로파일에서는 관세청과 관련된 모든 기업의 정보를 제공합니다. 관세기업에 대한 정내외 정보를 요약하여 제공하며, 상세분석이 가능하고 분석정보를 추적관리할 수 있도록 하고 있습니다.

— 사업자번호 or 상호, 대표자명을 입력하세요.

2-4501
2-5760
2-2189

항
어
반드시
합니다.
기

업체명 Business Name (Start With) 대표자명 (Contain) 주면등록번호 통관고유번호
주소 사업자등록번호 통관고유번호

업체명 대표자명 주면등록번호 사업자번호 통관고유번호
사업자번호 또는 상호를 입력하세요.

- Creates the risk profiles of each cargo, business and traveler
- Applies selection techniques based on multifaceted analysis
- Ensures thorough follow-up reviews / based on close correlations among data

Figure 11-4 Unipass Data warehouse and DataMart



- Increases the chances of detecting illegal acts
- and guarantees the transparency of customs clearance settings
- Increases national revenue and enhances social and trade stability

Sample of the EU:

The EU is characterized by many independent countries. They all work with a Single Administrative Document for declaration of goods based on the HS classification codes. Goods can be transported in bond and duties and VAT only needs to be paid in the country of destination. *Customs clearance takes place independently from the physical activities* by the ports or logistics service providers at warehouses. Often the logistics service provider is not required to obtain permission from customs to redistribute goods which makes it possible to operate the European Distribution Centre 24 hours a day, 7 days a week and 365 days a year. The goods can be declared independently from any delivery service.

This flexibility to warehouses is permitted by customs under strict requirements and depends on the type of license (in The Netherlands for example C-Custom-Warehouse or E-Custom-Warehouse). Consignees and shippers and logistic service providers are obtaining licenses for the digital handing of documents and payments. Full details need to be registered such as: value, tariff code, weight and origin. The customs clearance can be carried out via Electronic Data Interchange (EDI). Supplying customs with information this way allows customs to do more detailed checks on the clearances as well as the mutations of the warehouse inventory.

Clearance is done electronically, and examinations are limited based on risk management.

In the port of Rotterdam a few customs inspection areas have been created. The number of containers which are physically inspected is relatively low. This is because customs provides clearance electronically for the majority of containers and directs only high risk containers to the inspection yard based on risk management.

International Organisations encourage and support the adoption of modern Customs control techniques, using Risk Management principles. For example; WTO/Kyoto Convention and APEC Sub-Committee on Customs Procedures.

Controlling risks

Risk Management is the name given to a logical and systematic method of identifying, analysing, treating and monitoring the risks involved in any activity or process.

1. Establish the risks
2. Identify the risk
3. Analyse the risk
4. Evaluate the risks
5. Treat the risks

It is a dynamic process in which monitoring and review and communication and consultation goes hand in hand.

Customs should improve the risk management system with the focus on priorities and in decisions on deploying limited resources to deal with the highest risks. It not a matter to control all, it is a matter of identifying and controlling the high risk (risk/reward).

Monitoring and learning defines the goods into new classifications over time, resulting into less likely sectors with lower risks.

Figure 11-5 Risk Control and Classification

Risks Classification / Occurrence	Extreme	Very high	Moderate	Low	Negligible
Almost certain	Severe	Severe	High	Major	Moderate
Likely	Severe	High	Major	Significant	Moderate
Moderate	High	Major	Significant	Moderate	Low
Unlikely	Major	Significant	Moderate	Low	Very low
Rare	Significant	Moderate	Low	Very low	Very Low

Treating the risks is for port activities a very important element. High levels of physical examinations in the port leads congestion and space constraints. Through increasing the development of risk profiles and industry audits the random examinations will increase and the physical examinations can be reduced.

Figure 11-6 Treating Risk



Risk Profiles are developed as a means of putting risk management into practice at the Operational level. A risk profile is normally specific to a customs office. It describes:

1. The risk areas
2. Assessment of the level of risk
3. The countermeasures adopted
4. Activation date and review dates
5. Means of measuring effectiveness.

The profile information is used as the basis for the selection criteria. Documents received and processed by Customs, i.e., cargo and passenger manifests, goods declarations, are compared against the selection criteria through the use of automated systems. The action plan for physical examinations or random examinations is thereafter determined. In all the objective should be to increase the compliance and the control the level of risk.

11.3 Current situation

“Customs are present in all major ports in Sri Lanka. Their function is key as the custom regulations and procedures to import and export commodities may hamper the physical flow of goods when not efficiently organised.”

The legal obligation is to declare all goods (imported and exported) correctly and pay the correct amount of duty before the goods are cleared and free circulations/ export is allowed. On goods, import and or export duties and VAT are to be paid.

Customs is organizing 53% of the Government Tax revenue budget which mainly consists of:

- Import duty
- Customs duty
- VAT
- Excise duty
- CIS charge
- Ports & airport levy.
- Nation building tax.

The securing of revenues is therefore an essential part of the nation’s financial stability. Moreover, the control over irregularities, smuggling and preventing drugs imports are a national concern.

Customs perform the following activities:

- Collecting taxes and dues
- Clearance of cargo
- Sealing containers
- Scanning and inspection of cargo
- Creating release notes (for refunds/rebates)
- Anti-smuggling patrols (future)

Customs in Sri Lanka have implemented Asycuda (promoted by UNCTAD) in the period between 1992 and 1994. ASYCUDA has been live in Sri Lanka since January 1994. Today, the version “Asycuda World” is implemented and this is the latest version for customs applications worldwide and has the ability to connect through Electronic Data Interchange (EDI).

Several issues had to be solved during the process such as Implementation of the Manifest, Import/Export Cargo Examination, Border passing note and Import/Export CusDec submission and limiting input errors. For E- payments (online payments) two banks were connected, the Peoples Bank and the Bank of Ceylon. People’s Bank branches also facilitate to connect Sri Lanka Customs through Peoples Bank’s payment platform. Meanwhile Customs is working on several projects to support further use of electronic declaration and enhance the services such as on statistics portal and HS code finder. Despite this, Customs today’s faces still many manual requests for customs clearance. Another issue is that many payments are still done through cash payments such as at the Customs Headquarters Banks by Bank Drafts. In the warehousing sector, cash payments are still the most dominant method. Finally, the road congestion towards the inspection areas is a major issue today. Due to various reasons (gate procedures, port access road congestion, and public road congestion the queue before the main gate is often more than 5 km!

Clearance of containers

Shipping agents send their E-declaration to customs in advance of the goods arriving in the ports of Sri Lanka. About 90-95% of all containers is declared through this principle. The clearance of container is done by

customs after payment of duties. The payment is either done through E-payment and or manually at the customs counter desk.

Inspection & examination

Today, the majority of containers needs to be inspected and containers are send to designated inspection areas. This procedure is rather old fashioned and typical belongs to many countries which have not implemented E-clearance and proper risk management. In those countries the space in port became too limited and that is why bonded inspection areas have been created outside the port zones to allow goods to be inspected and cleared at those areas. In Sri Lanka the same has happened during the 1980s and 1990s when clearance was not yet automated but meanwhile Customs has implemented Asycuda World, as system which supports E-declaration and EDI.

As such today, containers can be declared electronically and can receive clearance electronically. Inspection and examination is done based on risk profiles. The consignments are selected under three categories as Green, Amber and Red. Amber and Red Channel selected consignments are subjected for the examination whereas the Green selected consignments are released without examination. Boxes are not inspected at the terminals. Customs assigns the inspection area when the container are (digitally) cleared and mentioned on the Gatepass issued by Customs. The Gatepass physically moves to the main gate at which time

Based on the risk profile, the containers follow following procedure:

1. Red Line: inspection at Gray Line I and II (about 1%) - The inspection in the Red Line concerns boxes with a high risk profile. Clearance is provided whilst they are at the terminal but containers are directed to Grayline I and Grayline II at the time of clearance. The areas of Grayline I and II have limited capacity for about 20% of the daily inspected containers. Currently around 1% follow this route.
2. Amber Line: directed towards inspection area Rank (about 92%) - The customs are sending cleared containers to inspection area Rank. About 1,000 containers are inspected daily at the inspection sides Rank, the site often receives more than 1000 per day based on the 92% share in daily traffic. Indicating that RANK site is insufficient to handle the traffic efficiently.
3. Green Line: are released from examination and go directly to consignees (7%) - The Green Line is provided to consignees with a low risk profile. Today about 47 Importers have been selected for the Green Line consisting of about 120 containers per day or 7%.

Regulations

Any import declaration has to be done by a registered and licensed entity to carry on the business as a Shipping Agent, Freight Forwarder or Non Vessel Operating Common Carrier (NVOCC). E-manifest can be obtained by registered and licensed importers and exporters. For import declarations by e-manifest, goods need to be submitted 72 hours prior to arrival of the first Sri Lankan port or later in case port of departure is within 72 hours prior to arrival in Sri Lankan ports.

The main regulations for importing goods by sea are illustrated here.

Table 11-2 Customs main regulations

Customs main regulations	
Manifest regulations	1. Customs Ordinance (Chapter 235) 2. Gazette Notification No. 1886/55 of 31.10.2014
Electronic Sea cargo reporting (E-manifest)	Gazette Notification No. 1886/55 of 31.10.2014

For full details on regulations please read the Customs Ordinance and the relevant gazette Notifications.

Charges of customs

The following charges are applied by Customs:

Table 11-3 Customs charge for each declaration

Custom charge for each declaration	Price
Commodity described by HS code, volume, items and weights	As per Tariff book
Computer charges	Rs. 250
Seal charges	Rs. 100
Over time (for Full Container loads only)	Rs. 1600

Rs. 250 is charged for each and every customs declaration for computer Charges and Rs. 100/- per containerized cargo as seal charges and Rs. 1600/- as overtime charges are applicable only for full container load(FCL) cargo.

When containers are send to inspection areas the transport is secured through (additional) seals at the container when leaving the terminal or port zone. Procedures are subject to improvements and further digitalisation.

Customs inspection zones are located at Rank Container Terminals and Grayline I & II. These facilities contain scanning materials. The map below shows an overview.

Figure 11-7: Overview Customs inspection areas



Facility	Cargo	Activity
Peliyagoda Warehouse	LCL Imports	Inspection
<i>Bloemendhal Facility (to be developed)</i>	<i>All Imports</i>	<i>Inspection & Scanning future development</i>

Facility	Cargo	Activity
Grayline II	FCL Imports	Inspection
Grayline I	FCL Imports	Inspection
Rank Container Terminal	FCL Imports	Inspection & Scanning
Trico Facility	Exports	Inspection
Port Scanning Facility	Imports	Scanning

11.3.1 Customs procedures

For this section the Port of Colombo has been taken as example as the majority of goods are transported/handled by this port.

Import Cargo

After declaration by the shipping agent, the customs duties need to be paid before Customs provides Clearance. The Gatepass is issued by Customs to the importer agent which inserts the truck number on the original Gatepass. The truck driver has a “port access pass” to enter the port with an empty truck for pick-up. With a copy of the Gatepass the truck driver is allowed to receive the import container at the terminal where the clearing agent has issued the “loading pass” and confirms the container number to the truck. The original Gatepass has now to be moved from the importer agent to the main gate by a wharf clerk which hands over the original Gatepass to Customs together with the Loading pass received from the truck driver in front of the main gate. Customs inspector then attach the seal and submits a new Gatepass to the driver.

Customs checks at the main gate;

1. Original Gatepass;
2. loading pass
3. Issues a seal number for Red and Amber inspections areas
4. Issues a new Gatepass for entering the inspection areas
5. Sometimes other documents are checked as well

Where the containers have to be examined was already decided and printed on the original Gatepass at the time of clearance.

The majority receives Amber line inspection which involves a medium inspection and those containers with high risk profile are inspected thoroughly through the Red Line procedure. Some trusted importers get an immediate ‘green channel’ which means that no inspection or scanning is needed others are directed towards scanning inspection facilities.

Note that Customs is not present/interfering at the terminal gates, all activities are done at the main gate and at the inspection yards except for exemptions.

Customs is preparing to move all their imports inspection facility to a newly to be realised Bloemendhal facility. In this case, the majority of boxes are aimed to be scanned in the port with new station scanners. The scanning of all boxes at the current facility would bring major logistic challenges as trucks would queue for this facility. Depending on the scanning results boxes are either send to the inspection facility or are released for public transport. The containers then sealed and tagged. Also, the Customs intend to work with GPS seals. This would allow customs to track the container whilst under transport to the inspection areas.

Export Cargo

All export boxes are examined at Trico facility in Colombo. Exports need to be inspected for the potential threat of smuggling (amongst others; smuggling of iron, fauna and cultural heritage items). 90% of the boxes pass through in 10 minutes at Trico facility. Customs need to check whether goods are indeed shipped out of the country, as rebates are given for exports based on this fact. For this reason, a releases note is issued.

Activities at Trico facility

1. Examination of container
2. Weighing of container
3. Documents checked
4. Seal for export
5. CDN (container despatch note)

At the main gate the seal and container number and the CDN is checked and stamped. With the CDN the shipper is able to get the rebate depending on the type of goods.

Customs plans to have export cargo scanning facilities in dry ports. The approved boxes can then be sealed and moved to the port and smoothens customs and logistic operations. The Trico facility will be used until that time.

Procedures and gate passes

The customs procedures are illustrated in the next two tables which describe the following processes.

1. LCL cargo clearance & delivery process
2. FCL import container: cargo clearance & container delivery process

This table is similar to the table as mentioned under IT, except here the customs actions are highlighted. The number of manual documents applied in this chain are highlighted. In the same table the modern practises are detailed to understand the difference between systems applied. The results are quite obvious, the number of administrative documents in the manual process is numerous, **up to seven copy documents to get to a delivery order, involving a lot of process time and administrative checks and administrative burden and limited transparency.** This compares to a **semi-automated paperless solution** in which approvals are made through the systems through status checks and status updates through a single window system. In this way the administrative flow is reduced and paper is eliminated. Further the system becomes very transparent, each party involved knows the same status.

The main observations on Customs are that there are still too many manual processes despite the e-declaration:

1. Cargo is only released after showing original payment slip issued by Customs which has to be manually processed.
2. Trucks may enter the port on a copy of the Gatepass to collect the containers after customs duty paid, also a manual procedure.
3. Cargo can only move out of the gate when original Gatepass is offered to the gatehouse which has to be handed in by courier-runner. The orginional document processing is a manual procedure.
4. A new manual gatepass with seal number is handed to the truck driver at the gate-out procedure which is to be handed-in at the the inspection area.

Table 11-4: FCL import container: cargo clearance & container delivery process

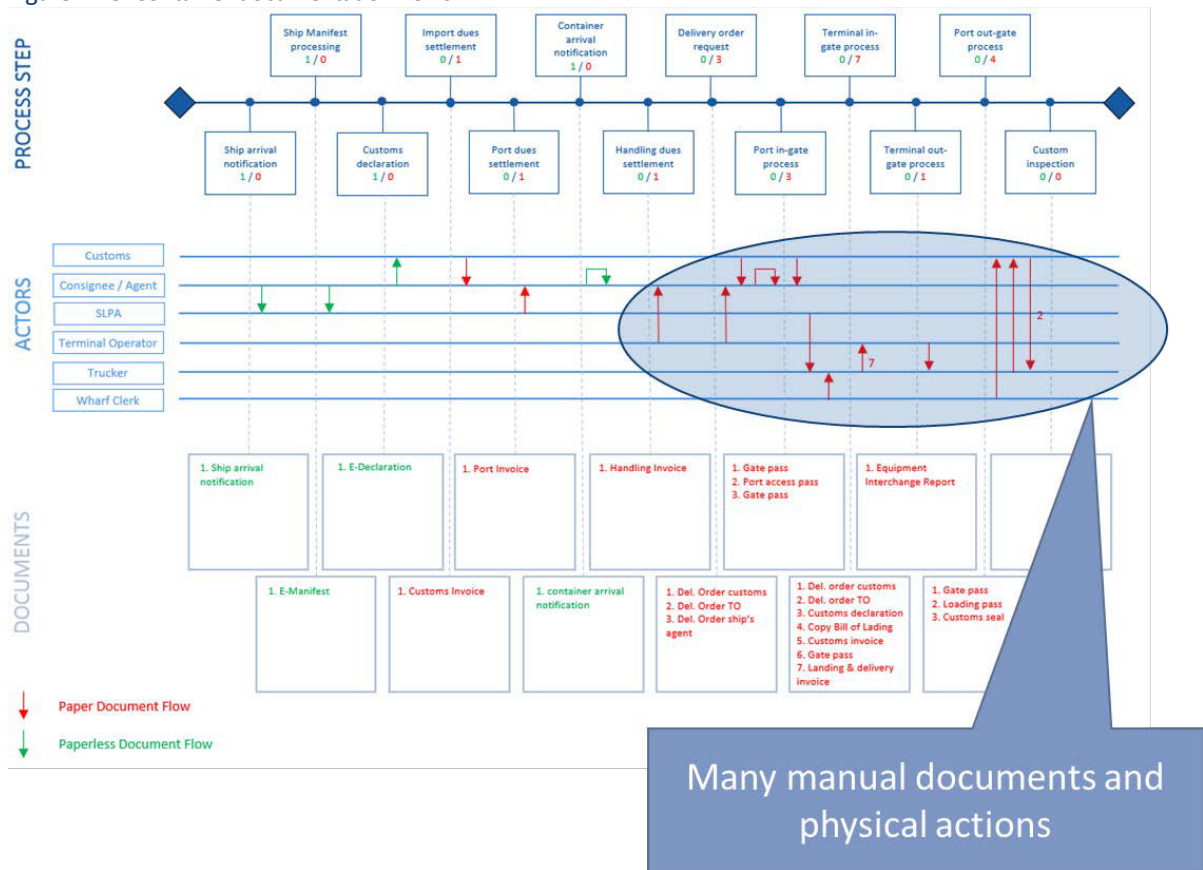
Process / Activity	Current situation Colombo	Benchmark International best practices
Ship arrival; ETA from shipping line to Port Authority	Email/Fax	EDI (Electronic Data Interchange)
Manifest	E-manifest (BAPLIE) 99% online – 1% manual	E-manifest (BAPLIE) Online
Cargo customs declaration by consignee	E-declaration	E-declaration
Import dues (Customs)	Payment (cash or transfer) If container has been discharged at the terminal, the consignee goes to Customs office (outside port) to pay the customs duty	E-payment
Port dues	Pro-forma disbursement account Advanced payment (online) Ship's agent pays port dues to Port Authority	E-payment
Container arrival notification	Shipping agent informs consignee on arrival container in stack	Automatic notification
Handling dues	Terminal charges shipping agent for the handling Monthly settlement Shipping agent charges to consignee: <ul style="list-style-type: none"> • Quay move • Stack move • Storage • Delivery move Consignee settles payments (cash or online) before pick-up of the container; obtains landing a delivery payment slip	E-payment
Delivery order (request from Consignee to SLPA/terminal operator to deliver)	Consignee has to complete the delivery order by obtaining approval by: <ul style="list-style-type: none"> • Customs • Terminal operator • Ship agent 	E-notification to Port Community System and/or Terminal Operating System
Port in-gate process: Truck sent for pick-up	Manual <ul style="list-style-type: none"> • Customs issues copy of gate pass (paper) to the agent/importer upon payment of custom declaration • Trucker needs port access pass from SLPA (sticker) • Wharf clerk provides copy of gate pass to truck driver (paper) 	Security check <ul style="list-style-type: none"> • Automatic identification truck driver • Truck license plate

Process / Activity	Current situation Colombo	Benchmark International best practices
Terminal in-gate process: Container delivery to Consignee	Manual Truck drives to terminal to pick up the container upon submitting: <ul style="list-style-type: none"> • Delivery order Customs • Delivery order terminal operator • Dustoms declaration • Copy bill of lading • Customs payment slip • Copy of gate pass • Landing & delivery payment slip 	(semi-) Automated Truck driver is invited to pick-up the container after finalisation of the online container delivery order Security check <ul style="list-style-type: none"> • Automatic identification truck driver • Truck license plate • Connecting container number to truck license plate
Terminal out-gate process	Trucker receives Equipment Interchange Report (EIR) after collection of the container	Trucker receives Equipment Interchange Report (EIR) after collection of the container, including gate pictures of equipment
Port out-gate process	Truck drives to Main Gate at port boundary Customs checking procedures <ul style="list-style-type: none"> • Wharf clerk delivers original gate pass to Customs (including truck license plate number and seal number) • Truck driver delivers loading pass to Customs • Custom issues customs seal Customs issues new gate pass (to drive to Customs Inspection area)	Truck drives to port gate Security check <ul style="list-style-type: none"> • Automatic identification truck driver • Truck license plate
Customs Inspection	Three examination modes: <ul style="list-style-type: none"> • Green: no examination (5-7%) • Amber: quick examination (+90 %) • Red : full examination (3-5%) 	Upon Custom request, truck driver needs to visit Custom scanning facility for examination

Graphically the situation on manual procedures in the FCL flow is illustrated in next figure. The red numbers illustrate the physical actions and manual documents in the administrative flow to retrieve a container from the port. The green numbers illustrate a digital process today.

At one stage about seven documents (or copies thereof) have to be presented to release a container. Further the physical actions to first present a copy of the gate pass and later to hand-in an original gatepass is a very old method and should be digitalised.

Figure 11-8: Container documentation flows



Transshipment Cargo

Customs does not inspect transshipment cargo which does not exit the container yard. To comply with international regulations radio-activity scanners are placed at the gates of terminals. Any MCC cargo can be selected for inspection in this regard. Due to interterminal traffic radio-activity may be detected and containers can be detained.

Scanning

Customs is using container scanning facilities to reduce the smuggling of goods and to increase the nation's safety. Containers are selected for scanning in case of doubts on the contents and or through random selections. The port of Colombo has three scanning facilities located at CFS 1 area. Two scanning machines are operational. Customs also operates scanning facilities at inland inspection areas such as at Rank Container Terminals and at Grayline I & II.

The scanning location at CFS1 is not ideal as inbound trucks have to make a right-hand turn at the main port access road to enter the scanning location and must turn back on the port access road again. This obstructs the flow of inbound trucks. Ideally the scanning of containers is done at an area where customs can take immediate action, that is at the same location as the container inspections areas.

In the long run, the role of the customs may be different once the bonded transport is allowed for both FCL and LCL and the transportation chain has become more trustworthy. The amount of physical checks shall be reduced. At the same time, the customs shall be more active at major shippers and consignees rather than at the port.

Table 11-5 Customs - Key Observations

Category	Issue	Severity
Customs		
IT	Asycuda World is able to handle E-declaration and uses HS classification codes for all commodities	Low
IT	They apply a Single Administrative Document (SAD) comparable to many developed countries	Low
IT	Asycuda World is able to handle electronic payments, yet the business is often still cash based	High
IT	Too limited consignees and shippers use the ability to do electronic declarations.	High
IT	Electronic clearance is not yet integrated in a Customs single window despite using the SAD	High
Gatepass	The Gatepass procedure is a manually intensive procedure which also involves wharf clerks to run around the trucks at main gate (safety issue). The original gatepass, the sealing and the issue of a new gatepass in all is rather a time consuming procedure.	High
Gate efficiency	The Main gate handles about 1 container each two to three minutes.	High
Logistics	High traffic queues of over 5 km are present at several days in the week. Next to manual procedures at the Main gate also the congestion in the city and in front of the inspections yards is causing this queue. Often the queue in front of the inspection area is all the way, from South Port to Grayline II.	High
Logistics	Inspection areas are scattered over several sites, often not easy accessible due to traffic. The scattered locations cause sub-optimal use of resources and planning. Customs is not able to control the truck flow as consignees themselves plan the truck move to the inspection areas.	High
Green line	A few shippers and consignees have been appointed to the green line which allows the container to pass directly without standard checks. Unfortunately, only a small part of the full container loads get the green line label, resulting in many inspections still today.	High
Inspection	The total capacity on inspection is limited to about 1,000 containers per day.	High
Scanning	Customs likes to implement 100% scanning (today about 70%). Scanning would increase the daily capacity of inspecting containers which is today limited to about 1,000 Containers per day. Today the scanning at the port is limited by only two mobile scanning trucks	High
Detention	Customs has own detention areas near the inspection sites. Also, in the port there are warehouses with goods under detention. The issue is here that these goods are not moved out frequently. Sometimes as auction are planned. The storage space in the port occupied by is Customs is for them free of charge. This space is however very valuable for the port and should be cleared if possible.	High

11.4 Recommendations

Customs – General

- R1. **Customs should further improve and liberalise their activities** to create a split between the physical flow of goods and the administrative flow of goods. In this way, the import flow can be sped up and import duties can be paid once goods are in transport. Digitalisation of the import duties payments shall improve the flow of goods.
- R2. Move to fully electronic Customs processing: customs entries are currently being filed electronically. Next step should be to move towards getting the appraisal/verification of Customs entry to be done electronically on the system. This obviates the need to visit the Customs office and will greatly speed up and simplify the processing of documents;
- R3. Build modern set of incentives for customs officers: to facilitate moving to full online processing and increase transparency, a generous incentive scheme to reward Customs officials for speed in processing documents should be considered. Such a reward scheme could be based on the number of applications approved per day, to align the interests of the importer and the Customs staff;
- R4. Allow pre-documentation as standard for all goods: currently, this facility is available only for perishable cargo; it should be extended to all cargo, to minimise bottlenecks when vessels arrive;
- R5. Develop AEO scheme: SLPA could start promoting port level AEO scheme that could be extended to PA run EPZ. The scheme should include provisions to improve valuation and risk management and, in this way, reduce the congestions at the port. Modern customs management technology such as extended port single window can be employed to fast track AEO status to all export firms in line with the best practice. All new investors in PA EPZ should be considered for fast-track into the AEO scheme;

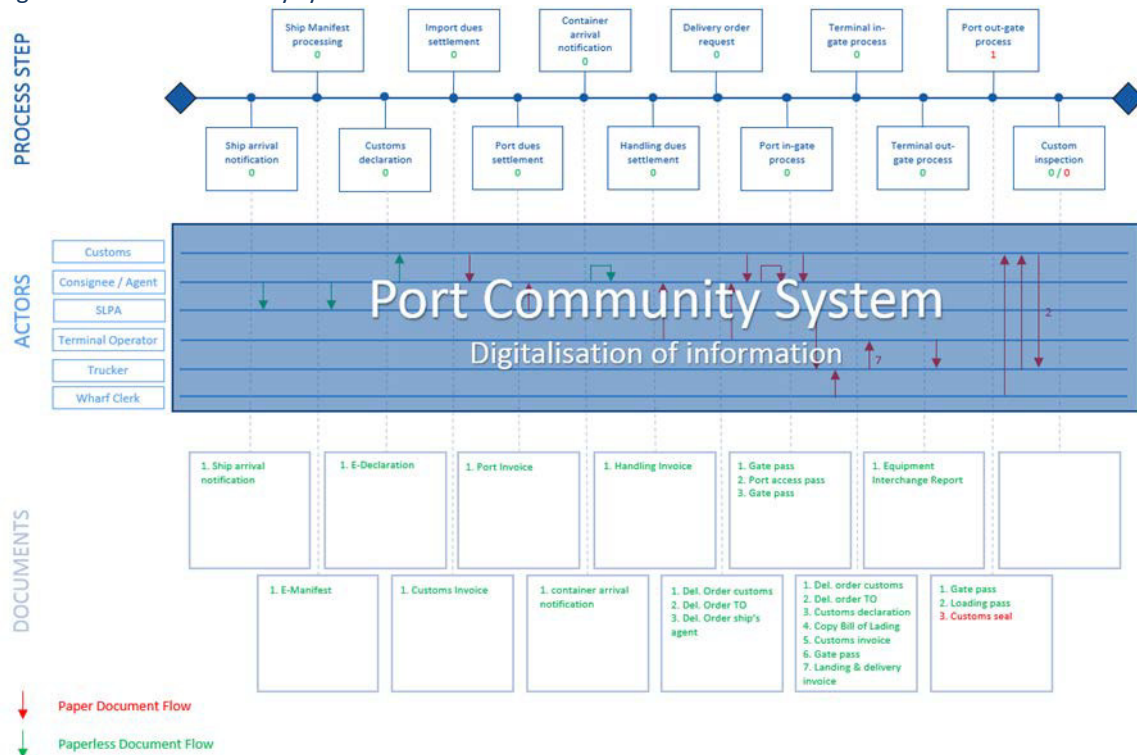
Customs - IT

- R6. Asycuda World is able to handle electronic payments and electronic payments should be encouraged. E.g. Customs should facilitate e-payment more and industry needs to be educated to use it.
- R7. Customs is recommended to further improve the **customs single window** and become paperless. Further it is recommended to facilitate and promote the development of a **single maritime window** (with which customs in the future, would electronically distribute their clearances)

Reference is made to Figure 11-8: Container documentation flows

This illustrated many manual documents and physical actions. With a Port community system, actors will be able to intervene through one system. This would resolve a large number of physical actions and duplications of documents. This is illustrated in next picture.

Figure 11-9: Port Community System



Customs - Clearance of goods

R8. **Goods Clearance should become independent of the physical flow.** By promoting the use of EDI, the E-declaration can be done whilst goods are in transport towards the port of entry. E-Clearance can therefore (based on risk management) already be provided before the goods arrive at the port. Customs in this respect should not interfere in the physical flow with exemption of the identified goods under the high risk profiles. Digitalisation is also the best method to reduce the level of bribery.

Customs - Risk management

R9. **Risk management is key in the allowance of free movement of goods** when clearance is provided.
 R10. Risk profiles in Sri Lanka is still set at high levels. **Once more trust has been built into the system the share of the green line can increase.** This can be obtained by increase fines for trespassers and reduce the costs for trustworthy consignees. "Intervention squads" should ensure that Green line consignees are indeed occasionally checked. Charge on manual declarations should be made rather than at computerized declarations to create incentives.

Customs Gate efficiency

R11. **The gate procedure needs to be simplified and to become paperless.** This can be done through a digital gatepass. Seals with GPS will enable the truck to pass through a RFID identifier at the main gate. In that case the seal needs to be mounted at the terminal gates instead of at the main gate.

Customs Green line

R12. **The Green line should be promoted and increased through proper risk management.** Due to the large number of small consignees and the rapid changes of consignees this is not easy but it is the only way forward to a more efficient transport system. Large and or regular consignees should be promoted to the green line. Customs is advised to increase the Green line volumes supported by random scanning checks at newly assigned Green line users. In the end shippers and consignees shall have a full paperless interface with customs through their customs single window and physical inspection is dramatically reduced.

Customs Scanning

R13. The **terminal inspection should be reduced to a minimum** and more containers should be sent through Green Line or through to the Scanning line. Reasoning is that space at the terminals is required for cargo operations.

A Scanning Line is to be introduced next to the Green Line based on proper risk management. This scanning is done before physical inspection is carried out and should have the aim to reduce the amount of physical inspection. Automate Customs inspections by installing scanners: replace physical inspection with electronic scanning as a standard procedure. The physical inspection should be based on modern risk management models.

R14. Customs likes to implement 100% scanning. This is not advisable when the set-up and operational efficiency is not in place and the scanning results in unacceptable queuing and waiting times. So, **the risk/reward of 100% scanning should be evaluated** as well as the cost incurred to society when 100% scanning leads to long waiting times of trucks as well as increased number of physical inspections.

R15. **The scanning is done preferably by fixed scanners in which the driver will exit the truck.** The health issue of exposure to radiation needs to be addressed and normally the truck-driver will exit the truck whilst the truck is pulled through the scanner.

Customs Inspection

R16. **Inspection should be concentrated among a few (preferably one) site(s)** to increase use of resources and planning.

R17. The area near Bloemandhal Area has been appointed for this. The total capacity on inspection should become more efficient to handle more containers simultaneously and have a **larger capacity by implementing fixed container scans** and to reduce the level of physical inspections.

Customs detained goods

R18. **The areas for customs detained goods should be allocated outside the port zone to free warehouse spaces.** Customs has several spaces in the port zone which is used for detained cargoes. These warehouses and spaces occupy valuable port land without any income for the port.