



Automating Customs procedures vital for economic recovery

Position Statement

Highlights

- Exports may contract by as much as 42% and more than 350,000 jobs are at risk.
- In a global recession, only the most efficient firms will survive. Reducing trade transaction costs to ensure local firms remain competitive should be a priority.
- Sri Lanka Customs has already progressed to some degree of automation. Moving as soon as possible to full electronic processing of documents will bring about savings in time and efficiency gains for all parties.
- The archaic Customs Ordinance of 1869 is out of step with the modern trading environment and hinders trade. It should be replaced by the new Customs Act as soon as possible.
- The slowdown in trade due to the pandemic presents a good opportunity to implement overdue reforms.

Introduction

The pandemic is threatening to push the Sri Lankan economy into recession. Exports from Sri Lanka have been severely effected. Despite a strong recovery, cumulative exports to August 2020 were 19.2% below last year. The Export Development Board of Sri Lanka (EDB) has revised the annual export target for 2020 downwards by 42%. In a global recession, only the most efficient firms will survive. Reducing trade transaction costs to ensure local firms remain competitive should be a priority. An important part of trade facilitation will be to reduce the time and cost of customs clearance and inspections procedures. Sri Lanka scores poorly on the World Bank International Logistics Performance Indicators(LPI).¹ Within the region it underperforms India, and within the income group it underperforms Vietnam. According to the LPI, Indian customs scores 2.96 on a scale of 1 to 5, and Vietnam customs scores 2.95, but Sri Lanka Customs scores only 2.58. To address this, the paper proposes a few measures to improve efficiency of customs processes which will lead to lower transaction costs and greater efficiency. It focuses on 'automation' as a key tool to increasing efficiency.

¹World Bank, *Country Score Card: Sri Lanka 2018 | Logistics Performance Index*. [online] Available at: <https://lpi.worldbank.org/international/scorecard/radar/254/C/LKA/2018> [Accessed 7 Oct. 2020].

The World Bank² observes that there are significant gaps between trade facilitation practices in Sri Lanka and benchmark countries in Asia; the preparation of documents is the most significant component, absorbing more than 50% of the time spent on import or export procedures. Border

procedures can add 10 – 15% to the cost of getting goods to market.³ Many of the trade-related processes remain manual and paper-based, with significant duplication of documentation required by different agencies. In Sri Lanka, it takes an average 76 hours to comply with the document requirements for exports compared with 61 hours in India, 62 in Pakistan and 10 in Malaysia. Similarly, import compliance takes 58 hours in Sri Lanka, compared to 10 hours in Malaysia.⁴ Automation is thus a powerful tool to improve efficiency and reduce costs.

Faced with a recession in the 1980s, Singapore's government set up a high-level committee to improve economic competitiveness. One of the recommendations made by the committee was to increase the use of information technology in trade. The result was a single window, TradeNet, which began operations in 1989 and brought savings of 25%-30% in document processing costs to traders.⁵ In the midst of a global recession, Sri Lanka faces severe challenges in its export markets. Efficiency gains through full automation of trade processes play an important role in enhancing business competitiveness.

Although Sri Lanka introduced the ASYCUDA system to the Customs Department as far back as 1993 and the Electronic Data Interchange (EDI) facility in 2002, implementation has been incomplete. The urgent need for processing documents electronically became evident during the COVID-19 pandemic, which limited person-to person contact. As a result, there was a partial adoption of automated process by Customs, but it is crucial for the country to quickly move into full automation.

Fundamentally, a comprehensive and modern legal framework is the foundation upon which an effective Customs and trade facilitation regime should be built. As Sri Lanka is party to the International Convention on the Simplification and Harmonization of Customs procedures this legal framework benchmarking should be based on best practices as set out in the Convention and adhere to internationally accepted standards. Unfortunately, Sri Lanka relies on archaic

²World Bank, Enhancing competitiveness in Sri Lanka. (2016). [online] Available at: <http://documents1.worldbank.org/curated/en/846371468933131350/pdf/Sri-Lanka-Competitiveness-20-FINAL.pdf> [Accessed 7 Oct. 2020].

³ World Bank. 2017. Boost trade in Sri Lanka through reforms and access to information. [ONLINE] Available at: <https://www.worldbank.org/en/news/feature/2017/09/28/boost-trade-sri-lanka-through-reforms-and-access-to-information>. [Accessed 22 July 2020].

⁴Taking paper out of Sri Lanka's "Paperless" Trade Accepting Electronic Documents & Signatures Paperless Trade: Two decades of effort with little success. Verite Research, 2016 [online] Available at: <http://www.importsection.lk/file/2016/11/Brief-on-Research-Findings.pdf> [Accessed 9 Oct. 2020]

⁵ Doingbusiness.org, World Bank. 2017. Trading Across Borders Technology gains in trade facilitation. [ONLINE] Available at: <https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB17-Chapters/DB17-CS-Trading-across-borders.pdf> [Accessed 14 August 2020]

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legislation: the Customs Ordinance of 1869, which has long been recognised⁶ as an impediment to the development of trade. The National Export Strategy⁷ flags the modernisation of the customs law as a priority.

The 2016 Budget proposed (Budget proposal 604/2016): “To suit the present day requirements in international trade activities, a new Customs Law in place of the existing Customs Ordinance will be presented to the Parliament”. The new Customs Act was drafted in an attempt to meet the obligations of the 2014 WTO Agreement on Trade Facilitation, but regrettably has not been implemented yet. Harmonising customs procedures with international customs law will result in a border management system that fully supports new requirements, procedures and allows for the implementation of related international instruments, agreements and standards, which is a vital part of trade facilitation. The new Customs Act attempts to address these issues and its implementation should be fast tracked.

The problem for traders

Customs introduced automation through the deployment of ASYCUDA in 1993, ASYCUDA++ in 1998, and ASYCUDA World in 2012. The optimal use of information and communications technology by customs would allow traders to file declarations as well as the supporting documents (such as the invoice, packing list, etc.) electronically, and to pay duties and communicate with Customs online. Currently, while customs declarations are filed out electronically, hard copies of the supporting documents are furnished manually to Customs. During the pandemic, Customs permitted the supporting documents to be uploaded to the system, as an interim measure. However, an online system for communicating with Customs (to clear queries) was not in place, so traders were forced to visit the premises to sort out queries, thus negating the efficiency gains from automation. In addition, Customs insists on physical signatures to complete the clearance processes, although the manual actions are also captured in the ASYCUDA World system. Traders do not feel the positive impact of automation and, in some instances, it may have actually increased the compliance burden. Thus, the current efforts taken to automate have yet not yielded optimal benefits.

This paper proposes measures that need to be taken to implement the full electronic functionality of the customs ASYCUDA system and thereby further strengthen automation of customs procedures in Sri Lanka.

In addition to automation, there are other supporting trade facilitation measures that can be taken to improve administrative processes and thus provide ‘Quick Wins’ bringing benefits with little investment. These are included with this paper for convenience and elaborated below.

⁶Customs Ordinance is archaic, needs revamp: Mangala. [online] DailyFT. 30th August 2017 Available at: <http://www.ft.lk/Business/Customs-Ordinance-is-archaic-needs-revamp-Mangala/34-638710> [Accessed 8 Oct. 2020]

⁷The National Export Strategy of Sri Lanka 2018-2022. Ministry of Development Strategies and International Trade. [ONLINE] Available at: <https://www.srilankabusiness.com/pdf/nes/sri-lanka-nes-4-3-web.pdf> [Accessed 8 October 2020]

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1. Enable acceptance of electronic signatures to ensure that all documents may be processed electronically.

According to the Customs Department, there is a technical problem with accepting online documents as electronic signatures are not recognised by law. The Electronic Transactions Act passed in 2006 should enable the acceptance of electronic signatures, but according to Customs, it has not been formally authorised to accept them.

Recommendation: Issue a DOPL (Department Order, Process Legality) by Ministry of Finance to Customs authorizing the acceptance of electronic signatures in terms of the Electronic

Transactions Act 2006. This will enable Customs to accept electronic submission of all documents on ASYCUDA.

2. Facilitate trade by adopting the new Customs Act

As noted above, Sri Lanka's Customs is governed by the Customs Ordinance of 1869. This archaic legislation grants wide and discretionary powers to Customs, including powers of seizure, assessment, arrest and detention with judicial appeal possible only after a long process of internal appeals. Its incentive structure favours penalising rather than facilitating trade.

The new Customs Act that has been drafted has yet to be passed. The proposed new Act, apart from updating procedures to modern practices has, inter alia, the provisions required for lodging of manifests in advance and electronic manifests, which would reduce dwell time. An operational level technical committee and a steering committee has been appointed to review the draft Act.

Recommendation: To fast-track the review and implement the new Customs Act.

The gains made through automation can also be further supplemented through other relatively easy measures to facilitate trade, such as:

- Revising the operating procedure for inspection agencies within customs to ensure trade is not unduly hampered.

Customs has 11 to 13 inspecting agencies (Revenue Task Force, Post Audit Branch, Port Control unit, etc.), and any one of these agencies may detain a shipment and inspect it. As these agencies seem to operate independently of each other, the same shipment may later be detained by another agency for a different inspection. Businesses incur demurrage while goods are in detention, and so are under pressure to make quick settlement.

Recommendation: In the event one inspection agency holds up a shipment (e.g. Revenue Task Force), other inspection agencies (e.g. Post-Audit Branch etc.) should not subsequently detain it further. Having an automated system in place, for the various agencies to coordinate and share information centrally, so that only a single investigation is necessary and the cargo is detained only once, could be a means of reducing the time and costs associated with this process.

- Improving flow of traffic through the exit gates.

For instance, while Exit Gate No 7 has 8-10 channels, most channels are permanently closed. Often only two channels are open and this leads to massive unnecessary congestion and delays. Permitting the free flow of traffic will bring about savings of time.

Recommendation: To open all the channels and ensure adequate staff to have a faster flow of goods

The electronic lodging of Customs declarations, document processing and goods clearance brings substantial time-savings and predictability to all aspects of cross-border trade and limits the room for manoeuvre by traders and Customs officials alike to circumvent the system. While not comprehensive, implementing the recommendations above will bring substantial benefits to the economy.

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