

Trade Facilitation, Present Problems and the Way Forward

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Trade Facilitation - An Overview

High transaction costs of carrying out international trade resulting from bureaucratic red tape, documentation requirements, lack of transparency, duplication and lack of cooperation between traders and official agencies has become a major stumbling block which prevents growth in trade. According to estimates of UNCTAD on average customs transaction involves 20-30 different parties, 40 documents, 200 data elements and the keying of 60-70% of all data at least twice. With the lowering of tariffs, the cost of complying with customs formalities is reported to exceed in many instances the cost of duties to be paid. An APEC¹ study has shown that expected gains from trade facilitation programs are almost double the expected gains from tariff liberalisation. This study points out that the reason why many small and medium size enterprises (SMEs) are not active players in international trade has more to do with red tape rather than tariff barriers. For developing country economies, inefficiencies in areas such as customs and transport have a major impact on export competitiveness and inflow of foreign direct investments.

Formalities, procedures and paperwork in international trade are generated by the need for Government and trade operators to monitor and control the movement of goods, transfer of services and related financial flows. This is necessary in order to safeguard each country's requirements to collect tariff revenues and to control the cross border movement of illegal drugs, arms, protected species, hazardous waste, and other controlled products and to fulfill the information requirements for operational and statistical purposes (UN/CEFACT²). However when imposing these, the authorities need to consider the effect of such procedures on the cost and efficiency of the overall trading system. It is important to ensure that these practices are not an economic burden to the trading community and do not discourage many businesses, especially small and medium sized enterprises from trading on an international basis.

Trade facilitation is defined as "simplification, harmonization and standardisation of international trade procedures". Trade procedures are activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade. These relate to a wide range of activities such as import and export procedures, Customs or licensing procedures, transport formalities, payments insurance and other financial requirements. It is expected to

ensure greater transparency, efficiency, and procedural uniformity of cross border transportation of goods. This will result in considerable savings in time, money and human resources.

Simplification is the process of eliminating all unnecessary elements and duplications in procedures. **Harmonization** is the alignment of national procedures and documents with international conventions, standards and practices. **Standardization** in trade facilitation is developing internationally agreed formats. The benefits of trade facilitation are export growth, improved competitiveness, increased foreign direct investment and increased participation of SMEs in international trade. To make trade facilitation a success there has to be political will and commitment, cooperation from trade and realignment of resources to build capacity of Customs and other relevant government agencies involved in international trade.

There are several initiatives taken at the international level to promote trade facilitation. For example, member nations of the WTO would be negotiating on commitments to strengthen the rules on trade facilitation after the Fifth Ministerial Meeting of the Doha Development round in September 2003, marking the first ever negotiations on trade facilitation. Articles of the General Agreement on Tariffs and Trade (GATT) which are relevant for trade facilitation include Article V, dealing with transit; Article VII, concerning valuation of goods for Customs purposes; Article VIII, dealing with the simplification of documentary requirements and Article X, concerning the publication and availability of information on regulations, etc. relating to the classification of goods, valuation, rates of duty, restrictions, prohibitions etc. Despite the growing realization of the importance of trade facilitation there are mixed reactions from developing world towards a multilateral negotiation on trade facilitation. They feel that such an agreement will further add to implementation burdens for developing countries, which lack resources to modernize customs facilities. However this will no longer be a choice available for developing countries and it is becoming a must in order to promote trade and attract foreign investments. In a highly competitive world environment, international trade and investment will flow towards efficient, supportive and facilitative locations. At the same time it will ebb away from locations, which are perceived by business as bureaucratic and synonymous with high costs.

United Nations Center for Trade Facilitation and Electronic Business (UN/CEFACT) has also taken

efforts at promoting trade facilitation as stated in its Recommendation 18 (*3rd edition, March 2001*), which provides a comprehensive set of recommendations regarding international best practices and standards for the facilitation and harmonization of trade transactions, from initial commercial documents to payment measures, official controls and transportation of goods. The recommendation is said to be especially relevant to transition and developing countries which can still significantly improve their economic performance by streamlining international trade procedures.

Sri Lanka

Trade facilitation in Sri Lanka is said to be slow, costly and inefficient. The cost is estimated to be around 10 percent of the value of total imports and exports. Such inefficiencies increase the costs of carrying out business in terms of time and money. This hampers growth prospects for the country, which is heavily dependent on trade and is in dire need of foreign direct investments to achieve the very optimistic growth target of 10 percent stated in the governments' policy document "Regaining Sri Lanka".

To create a simple, transparent and fast trade facilitation system, institutions and processes have to be improved, physical resources have to be provided and adequate training has to be provided to upgrade human resources.

There are a large gamut of Ministries and Departments administering various aspects of international trade in Sri Lanka. A recent survey has revealed that there are about 42 government institutes overlooking international trade transactions. It is almost impossible to discuss the problems associated with all these institutes in a short paper like this within a given short time period. Therefore more attention has been given to Sri Lanka Customs and Ports Authority, which are considered as the most important institutes that facilitate trade.

Sri Lanka Customs

Customs administrations play a vital role in the growth of international trade and the development of the global marketplace. It has to meet the demands made by the rapidly changing trade environment for fast clearance of goods and at the same time fulfilling its legal responsibilities such as collection of revenues, protec-

tion of the society and ensure compliance with a great number of international trade agreements. The efficiency and effectiveness of Customs procedures can significantly influence the economic competitiveness of nations. Therefore customs systems and processes must not be allowed to become a barrier to international trade and growth.

Standardization, simplification and harmonization of procedures followed by Customs can greatly reduce costs in terms of time and money. Such measures will reduce the administrative barriers, foster the small and medium businesses to engage in international trade and help to make the country an attractive destination for foreign investments. WTO in its trade facilitation efforts has focused only on Customs, and this alone is evidence to show the important role it plays in international trade transactions.

The Revised Kyoto Convention (WCO³, 1999) offers instruments that allow countries to meet their legitimate goals of revenue collection, protection of society and facilitation of trade. The convention not only strengthens the customs control, but also enables facilitation of the trade via simple, standard, transparent and predictable procedures.

Core principles of modern Customs procedures are stated as -

- Transparency and predictability
- Standardization and simplification
- Maximum use of information technology
- Minimum necessary control to ensure compliance
- Risk management to facilitate legitimate trade while maintaining effective control
- "Fast track" procedures for traders with good compliance record ("Authorized traders" concept)
- Co-operation and partnership with all stakeholders including government agencies, the private sector and Customs administrations of other countries.

Customs administration has to face the challenge of balancing trade facilitation measures, detection of deceptive practices (e.g. under invoicing, dumping) with the security initiatives in an environment where acts of international terrorism and organized crime have become a major concern. **The Resolution on Security and trade Facilitation of International trade supply chain (WCO)** was signed in 2002 as a response to the need to ensure security without compromising the facilitation efforts. The resolution addresses issues related to risk management, advance electronic transmission of standardized Customs data, co-operation with the private sector, and exchange of information.

Sri Lanka Ports Authority (SLPA)

Given the strategic location of the country as

an island in the Indian Ocean close to India and centrally located in respect of Asia, the Far East, the Middle East, Africa and Australia, it is often said that we have great potential of becoming a shipping and an aviation hub in Asia. Trade facilitation is an area, which would enhance the potential of the country to benefit from this natural advantage. At present however, being a latecomer, the country has to face severe competition from leading ports in countries like Singapore, Malaysia, Dubai and emerging ones in India.

Traditionally a large numbers of documents are required by customs, immigration, health and other public authorities pertaining to a ship, its crew and passengers, baggage, cargo and mail. Unnecessary paperwork is a problem in most industries, but the potential for red tape is probably greater in shipping than in other industries, because of the international nature and the traditional acceptance of formalities and procedures (International Maritime Organization). Measures have been proposed to facilitate the arrival, stay and departure of ships of coastal and non-coastal contracting states by simplifying and reducing to a minimum the formalities, documentary requirements and procedures.



Too many office procedures hinder the timely activities of the international trade and it causes heavy losses to the country.

This includes all documents pertaining to the ship and its passengers, baggage, crew, cargo and mail, which are required, by Customs, immigration, health and other public authorities.

The Sri Lanka Ports Authority (SLPA) is responsible for the operations of Sri Lanka's three main ports – Colombo, Galle and Trincomalee. It is a port operator, terminal operator, landlord, regulator and policy developer for Sri Lanka ports. It is the responsibility of the Authority to take appropriate measures with the co-operation of ship owners and port administrations to ensure that satisfactory port traffic flow arrangements are provided so that handling and clearance procedures for cargo will be smooth and uncomplicated.

As an apex body that facilitates trade there is a general satisfaction of SLPA operations. For example with the recent infusion of competition by

allowing private sector to operate, the terminal operation has become more efficient. Besides the flexibility in SLPA operations with respect to working hours and job arrangements is appreciated. Strike activity is low and management systems in the port rely to some extent on electronic data systems with increasing adoption of paperless transactions between terminal operators and port users on a 24-hour basis.

Sweeping changes have taken place in the sphere of international trade facilitation with the rapid development of technology. Despite being strategically located and having great potential of becoming a shipping and aviation hub for the region, Sri Lanka has failed to keep up with these developments. For example with the increasing use of containerized cargo (instead of bulk cargo) the time taken to load and unload cargo has come down drastically, roughly a task that took almost one day now takes only half an hour. Unfortunately the country has failed to make the maximum use of such changes because other supporting institutions have not upgraded their systems and procedures to accommodate this fast clearance.

Present Problems

Customs Ordinance

The Customs Ordinance and subsidiary legislation is over 100 years old. Despite being revised for about 26 times since 1978, it is said to be grossly inadequate to accommodate modern requirements of international trade. In addition this gives ample room for Customs administration to use excuses related to legislation to delay adoption of new systems or procedures required to improve trade facilitation. Revision of the law to suit the current demands is a long felt need. In addition for effective facilitation of trade the law must be constantly reviewed and updated.

Compendium of procedures

According to Article X of GATT on trade facilitation, authorities are obliged to publish all trade-related laws, regulations, rulings and agreements in a prompt and accessible manner. Unfortunately in Sri Lanka these various aspects related to trade are revised in an ad-hoc manner and the affected parties are not informed promptly.

In addition, lack of a compendium of procedures and related documentation for each area of operation is a major concern. As a result, importers and exporters are subject to unnecessary harassment due to their ignorance. Further officers tend to apply procedures as known to them and interpret these to suit their requirements. Since there is no single uniform definition, the interpretation and application of rules and regulations vary from situation to situation

and person to person. Hence the formalities, procedures, laws and regulations need to be clearly defined and published and made available to the public. This will encourage administration of these in a uniform, impartial and a reasonable manner and reduce room for corruption.

Website for Customs

A regularly updated website giving all relevant laws, regulations, procedures, documents and tariffs is a must in today's context. Sri Lanka Customs launched its website in year 2000. Many appreciate the initiative taken, however there is ample room to improve the site. For example there is a section to report laws and regulations pertaining to Customs, in this at the moment only Customs Ordinance and Sri Lanka Standard Institute regulations for importers are listed. The Customs is the executing authority for over 50 laws pertaining to trade; hence this section needs to be updated. Likewise in many other areas more information can be provided through the site.

Electronic Data Interchange (EDI) System⁴
EDI system is a system that facilitates the electronic recording and transferring of data/information required by Customs. All parties involved (e.g. Customs, Ports, BOI, EDB, Importers, Exporters, Freight Forwarders etc.) are electronically linked for the processing to be efficient. The ultimate objective of EDI is to come up with a one-stop information system, which would eliminate costs and delays associated with presenting documents or goods to different agencies.

The proposal to establish an EDI system was made several years ago. This has been discussed repeatedly on many occasions, but no significant progress has been made. At present there is an Advisory Committee studying this proposal and many expected that this would at last become a reality, as it was announced that this system would be implemented by early 2003. However, according to the private sector representatives who are involved in the process there is a serious doubt whether the proposal, if implemented as it stands now would actually be able to improve the existing system. They indicated that there are several technical and legal issues which are yet to be resolved before implementing. The progress made in these areas is very slow and as a result implementation has been delayed. The private sector is concerned about the outcome if the government decides to implement without actually resolving these issues. Considering the huge cost that is involved in establishing an EDI system, it is very important to resolve the issues as soon as possible and ensure that the benefits to the trade and industry is higher than the costs.

This is a system, which would be expanded to cover all agencies in time to come. Therefore

private sector representatives proposed to develop a Single Administrative Document, which would accommodate the requirements of other government agencies before implementation. This would make it easier to gradually absorb the other institutions when the system is in full operation. At the moment sufficient attention has not been paid to this suggestion.

Customs Examination procedures

The existing reward system is severely criticized for being ineffective in reducing corruption and creating unnecessary delays. It is regarded as a waste of scarce Customs resources. Noting that hundred percent inspection of all consignment has become a thing of the past, this system can be regarded as an unnecessary cost to the country both in terms of administration cost and in terms of increasing cost of carrying out business. As a solution to this problem it has been recommended to abolish the reward system and move to professional pay scales.

Training and Skill development - In order to improve examinations the customs need to adopt selective checking based on risk analysis techniques. The customs officers must be specifically trained in this area to enable them to carry out the duties in a professional manner. It is pointed out that customs agents must be highly skilled and have thorough knowledge on matters such as classification, valuation of goods, standards, intellectual property etc.

Paying refunds on time

Refunds division is said to be the slowest moving unit in the Department. Typically it takes several years to secure a refund. It is suggested that the law provide for some relief measure if a claim is not paid within, at least 6 months after submission

Gold Card System

Allowing for mutual recognition of authorized traders from one country to another would lead directly to more predictability, reduced risk, less opportunity for theft and pilferage in the supply chain and increased opportunities for facilitation of businesses and contribute towards enhanced security standards. Hence the proposal to introduce a gold card system, which would facilitate trade and provide incentives for good compliance by providing a "fast track" clearance procedure for lower risk importers, is timely. According to the proposed program the pilot project is to be launched in July 2003.

Uniform Coding System to be used by all institutes

The Customs is using a HS coding system, which is internationally accepted and is regularly updated with new additions. Other local institutes such as Sri Lanka Standard Institute (SLSI), Import Control Department and Department of Pesti-

cides have coded and gazetted the products that come for inspection to their departments. However there are apparently instances where these codes are not in conformity with standard HS codes and in addition the codes are not updated to accommodate new revisions. This creates unnecessary problems for importers. The other institutes still use the descriptive method to classify products.

Geographical location of institutes administering trade

Since the various government agencies overlooking different aspects of trade transactions are not in proximity to Colombo and since they are not electronically linked, it takes a long time to process relevant documents required for the clearance of cargo (e.g. Dept. of Pesticides is in Kandy)

Clarification of functions and lines of authority

The functions and responsibilities of the officers at Customs starting from Director General of Customs are not implemented with clarity. For example at present the authority vested in the DGC is exercised by all grades of officers even in instances in which the law does not state, "by an officer authorized by DGC". This leads to confusion and encourages corrupt practices.

Working extended hours without overtime

The customs was requested to work around the clock and this has been highlighted as an important element in facilitating trade. The large number of holidays in the country has also become a problem. According to Customs the persons who come to obtain services after about 7 p.m. is negligible. As a result the Customs have discontinued to work after 7 p.m. One possible reason for this is that other institutes involved in the entire process such as banks being close at this time. Another reason given is that all parties have become used to the old system for such a long time, it will take some time to adjust to work around the clock, hence some time should be given for this adjustment.

Establish Effective and Rational Inquiry Procedures

At present inquiry procedures are costly and time consuming. Therefore it has been recommended to set up a system with following features:

- Should be well defined, the law violated must be clearly stated
- Statements must be recorded
- Extract of the proceedings made available to the defendant
- A Board of Commissioners should act as an appellate body
- Avenues of further appeal should be made simple

Clarify Customs Export Procedures

Sri Lanka, being a country that depends a great deal on export of goods and services need to put greater emphasis on facilitating exports. It is said that it is much more difficult to export than to import. A number of unnecessary procedures for processing of export cargo remain in place despite the liberalisation of trade and payments and removal of customs duties on export cargo.

Capacity Building

A well-designed and targeted capacity building exercises focused on improving the efficiency and effectiveness of customs is required. Capacity building needs to go beyond a series of narrowly focused activities to embrace a more comprehensive and long-term approach designed to address all areas of Customs administrations.

Technical Assistance

World Customs organization is willing to provide technical assistance and capacity building support, it is up to the Customs administration to take a strategic approach and all stakeholders to commit themselves to the practical implementation of recommended measures. The Sri Lanka Customs need to approach these international organizations and seek their support.

Large Workforce

SLPA has over the years built up an unnecessarily large workforce due to political appointments made by successive governments. Politics have also played a role in management of work practices in the port. Downsizing the workforce and managing it at an efficient level on a sustainable basis is a must to enhance efficiency.

Developing Dry Ports

As a result of the space constraints faced by the port, a need has arisen to develop dry ports. These could be used to transfer the cargo straight from the ship to the dry port. This will enable the agents to move freely and to operate more efficiently. Developing dry ports would help to eliminate congestion created by a large number of import and export containers at the entry and exit of the Port.

Expanding Space Available at Port

It is estimated that the Colombo Port would run out of space by 2010 and hence there is a great need to develop additional ports and to expand the existing space at the Colombo port. This has been identified as a priority area for a long time, however no significant progress has been made. The sites identified to be developed are Galle, Oluvil, Hambantota and the Colombo

South harbour. There has been many debates over which project should be given priority and as is common in many other areas politics plays a major role in decision making and hence these much needed infrastructure projects get unnecessarily delayed.

Concluding Remarks

Sri Lanka is a small open developing economy that depends heavily on international trade and foreign direct investments. At the same time, Sri Lanka has great potential to evolve as a shipping and an aviation hub for the region due to its strategic location. In addition having an efficient trade facilitation system in place would contribute significantly to attract export oriented foreign direct investments.

However it is important to remember that "one size fits all" solutions simply do not work. The problems faced by each country are unique to that particular country and needs country specific solutions. Therefore it is important, make a joint effort by all relevant stakeholders in the country to come up with practical, relevant solutions with a long-term vision.

There is wide consensus that trade facilitation must be addressed in a coordinated manner to ensure that problems are not created in one part of the transaction chain by introducing solutions to another part. This requires an effective forum where private sector managers, public sector administrators and policy makers can work together towards the effective implementation of jointly agreed facilitation measures. This forum should consist of all parties engaged in international trade: manufacturers, importers, exporters, freight forwarders, carriers, banks, insurance companies and public administrators. Recently some attempts have been made to consult all parties concerned in amending and standardizing procedures. However there are complains that although they have been called to participate, their ideas and suggestions are not being incorporated or given due recognition. There

is a feeling that despite appointing committees and developing proposals, these are not being taken into consideration when implementing the project since the final decision lies in the hands of the politicians.

Trade facilitation involves a large number of Ministries and government departments, hence coordination of these institutes is very important to establish a seamless process. Lack of coordination and commitment and vested interests are major barriers that has hitherto hindered all efforts made at creating a conducive environment to carry out trade and to reduce bureaucratic red tape.

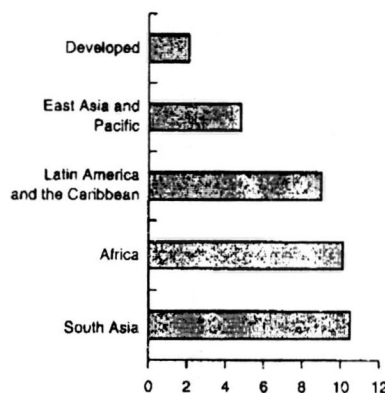
Lack of sufficient resources has been cited as the major barrier for Customs in becoming an efficient trade facilitation body. This is a common constraint faced by all developing countries, but how long can we afford to postpone vital reforms required to accelerate growth by making this excuse? Apart from funds, there is lack of initiative, focus and commitment to do the right thing. Trade facilitation cannot be improved by the effort of one individual or one institute; it is a joint effort. However actions and attitudes of one individual or one institute can block the progress of the whole process.

In order to recover the costs of automation and modernization, at the moment the traders pay Rs. 250/- as customs computer fee and once EDI come into operation it is proposed to charge US \$ 4.5 as transaction fee out of which about 40 percent is expected to be retained by the Ministry of Commerce and the balance goes to the service provider. It is understood that in addition there is a proposal to introduce a US\$ 10 as "Customs modernization fee". In the short run this would be an additional cost to importers and exporters, and the general feeling is that the cost is too high. However if in the long run the proposed reforms help to reduce corruption and increase efficiency, the gains may well be higher than costs. All depends on how well the reforms are being carried out and to what extent these would help to achieve the objectives. Further to enhance the transparency and accountability, the customs needs to spell out clearly how the funds would be utilized and the private sector should be involved in the management of the Fund. At the same time the Customs should give an update regularly on the financial position of the fund to the trade and industry that contribute to the fund.

Trade facilitation is a less controversial area compared to trade liberalisation. Besides as stated before the benefits of improved trade facilitation could be far greater than the benefits of trade liberalisation. There is more support from the private sector towards this initiative whereas the cooperation of the public sector is relatively low. In a highly competitive globalised environment, any measures that would help to enhance the competitiveness of domestic indus-

Clearing customs takes longer in developing countries.

Average number of days to clear customs for sea cargo



Note: This is based on a sample of countries in each area; see figure 5.1 in chapter 5.

Source: International Exhibition Logistics Associates. Available at <http://www.iela.org>.

tries in the international market should not be ignored. Trade facilitation is an important element that would greatly reduce costs of trade, which in turn would give a competitive edge over others in the international market. This is an area, which has been neglected for a long time. It is imperative that we give more priority to trade facilitation, and it is a must if we are to achieve the set medium term growth target of 10 percent and to become a shipping and aviation hub for the region.

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Interviewed

Mr. Ravindra Ratnapala, Chairman, The Sri Lanka Shippers Council

Mr. M S M Niyas, Chairman, Association of Clearing and Forwarding Agents

Mr. Romesh David, Immediate Past Chairman, The Sri Lanka Freight Forwarders Association

Footnotes

¹ Asia Pacific Economic Cooperation

² United Nations Center for the Facilitation of Procedures and Practices for Administration, Commerce and Transport

³ World Customs Organization

⁴ To find out more about the proposed project in Sri Lanka, visit the website www.eserviceslanka.com