



Country Update

The WTO Trade Facilitation Agreement: Main Issues Faced by SMEs in S&SE Asian Countries and Their Solution

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Setting the scene of the trade facilitation barriers to SMEs identified as topic for discussions.

Why is it an important issue for the economy and trade of your country?

As a trade dependent nation, strengthening trade and investment is an essential component of Sri Lanka's growth strategy. In 2015, Sri Lanka's exports and imports of goods and services accounted for 20.5 per cent and 28 per cent of GDP respectively. However, Sri Lanka's export performance since 2000 has been far from satisfactory with declining exports/GDP ratios, declining world export shares, and falling behind its competitors. For instance, exports of Sri Lanka's competitors like Vietnam and Bangladesh who were respectively, on par and behind Sri Lanka in the 1990's now amount to US\$ 120 billion and US\$

24 billion respectively, in comparison to Sri Lanka's US\$ 10 billion (Kelegama, 2014). The reasons for lackluster performance in exports is identified to be fundamentally 'homegrown' with high trade related costs identified to be one underlying factor affecting competitiveness of Sri Lanka's exports.

Furthermore, studies show that the potential for growth and diversification of exports between Sri Lanka and its South Asian neighbours has not been fulfilled despite free trade agreements in place in the region. The constraints to improve intra-regional trade that have been identified include certain measures that relate to the trade facilitation agenda including customs processes, and the lack of harmonization of standards.

Given that trade facilitation is also an important determinant of Global Value Chain (GVC) participation, the country's ability to participate in GVCs in the future would also be dependent to a great extent on its ability to facilitate trade.

Are you aware of the WTO Trade

Facilitation Agreement and the status of its implementation in your country?

The key border agencies of the country and the main business chambers are aware of the WTO Trade Facilitation Agreement (TFA). The trade related government agencies such as the Sri Lanka Customs and the Department of Commerce (DOC) are actively engaged in the WTO Trade Facilitation Agreement. In line with the WTO TFA, a National Trade Facilitation Committee has been set up in which, 12 key border agencies are represented by the relevant heads of institutions. The private sector is also represented in the committee by the Secretary General of the Ceylon Chamber of Commerce, an apex business chamber in the country.

However, the interviewed SMEs were not aware of the WTO TFA or the status of its implementation. Likewise, the sub associations that fall under the main chambers that were interviewed for the study were also unaware of the Agreement or its status.

Q.3. *When and where have you raised the challenges faced in your own transit with your government for a resolution?*

Transit issues that arise internally are raised mainly with the Sri Lanka Customs, the DOC, the Export Development Board (EDB) and the Ministry of Finance. For instance, the Certificate of Origin (CoO) under preferential trade agreements are issued by the DOC and if there are any issues at the point of entry regarding the CoO, these are raised with the DOC. Issues at the domestic end, especially with regard to imports are raised with the Sri Lanka Customs.

Transit issues faced in other countries are raised mainly with the Sri Lanka Customs and the DOC.

There are also forums such as the 'Ease of Doing Business' a fairly new initiative by the

Ministry of Finance, to remove impediments that businesses face in doing business in Sri Lanka. This is a multi-stakeholder platform chaired by the Finance Minister with the participation of the relevant ministers of respective ministries and top officials of government institutions. The issues faced by the private sector in the trading process are discussed in this forum as well. The deliberations at these forums have resulted in positive outcomes for traders such as customs operating 24 x 7.

However, the active participation of SMEs in these forums are minimal, probably due to the lack of capacity. Having dedicated forums for SMEs to discuss the issues they face would be helpful.

Analysis of the Trade Facilitation / Transit Issue

Can you describe the main TF-related issue faced by you?

Finding Trade Related Information: Timely publication of related rules, and regulations, and having an inquiry point on export/import procedures was identified to be of high priority. Respondents thought that although the publication of trade related rules and regulations is carried out to some extent that it is not comprehensive, adequate or effective as it can be. Furthermore, finding information and understanding information that are technical in nature, i.e. labelling requirements and standard requirements, is especially difficult for SMEs. When trade related issues come up, they also do not know which agency to contact. In this regard, a central enquiry point would be useful for especially the SMEs.

Non-acceptance of Sri Lankan standard certification at the importing end: This has led to delays and increased costs. Exporters to

India find this to be a pertinent issue. The Sri Lanka Standards Institution (SLSI) has signed a MoU with the Export Inspection Council of India in 2003 whereby, Sri Lanka recognises Indian quality standard/product certification for over 80 identified items. However, there has been no reciprocal agreement signed to state that India would accept quality standards/products certification issued by Sri Lanka. As a result products need to be tested again in India which results in extra costs/time.

The need to visit multiple border management agencies to complete the export/import process: Exporters need to visit a number of agencies to complete the export/import process (i.e. to complete the documentation requirements and get approvals). There are over 30 agencies in the import/export process. These agencies are not under one roof, are spread around Colombo and most of them are not connected to each other online. This increases the cost of exporting, both in terms of monetary costs and time.

The need to make irregular payments to officials in the import/export process: The export process is automated to a great extent whereas the import process is not. This leaves room for some officials to seek for irregular payments which adds to a considerable amount.

Clearance issues due to delays in obtaining test reports: When shipments arrive in Sri Lanka with products that require testing/certification, the shipments are cleared but not released until the test reports are produced. There are undue delays in some instances due to the lack of capacity to handle a large number of requests. It can sometimes take up to 2-3 weeks for a report to be issued, resulting in importers having to incur additional charges such as high demurrage fees. Furthermore, some of the local labs are not equipped to issue international certifications demanded by buyers for certain products (i.e. coir).

Mind-set and Culture at Key Trade Related Agencies: While recognizing the recent initiatives undertaken by the relevant authorities such as Sri Lanka Customs to improve trade facilitation -which some businesses acknowledged to be admirable-some exporters/importers are of the view that they do not function well in practice mainly due to the lack of change in mind-set to accept and adopt to new ways of conducting business, etc.

Inadequate Warehouse Facilities and Scanning Facilities: Some traders also highlighted the lack of adequate facilities available at warehouses. Lack of proper storage racking systems, poor conditions within them, poor handling and inadequate security are some of the issues highlighted by the trading community. Scanning facilities at the port and airport are also minimal in Sri Lanka which results in containers having to be opened up manually for checking. This results in delays and additional costs with traders having to send their own staff members to unload and load goods, and also quality drops especially that of perishables. For example, airport security at the Bandaranaike International Airport sometimes carry out random checks of products before they are allowed to enter the airport premises for security purposes, requiring exporters to unload products for checks. Furthermore, despite losses and damages to cargo was identified to be low, the main reasons for the losses and damages were identified to be mishandling of cargo, mainly at the port and the warehouses. Hence, there is a need to acquire necessary scanning devices which will not only facilitate traders but also the country as a whole in promoting the trade of legitimate products and security.

Congestion in the Colombo Port and surrounding areas: While acknowledging the improvements in infrastructure compared to the past at the Colombo Port, the need to give a face-lift to the port was highlighted; some of the equipment currently at the Port are outdated. Congestion at the Port increases at night with

most customers preferring to take out import containers from the Port at night. Furthermore, congestion in and around Colombo has also been a problem. This is mostly due to inadequate infrastructure in terms of road networks, etc.

What is its impact on the trade of your country?

A majority of the issues listed above translate into additional costs and time. The need to visit a number of agencies which are not linked electronically mean that a number of forms need to be filled, some manually, and be physically be taken to the relevant agencies for approval. This entails transport costs, waiting time and other cost, which increases the cost of exporting. In other words, it affects the efficiency of the country's exports and may negatively impact its ability to GVCs, where timely and efficient delivery of products is crucial. This may also result in a loss of export revenue to the country.

Sri Lanka currently ranks at 90 among 189 countries in the World Bank's ease of trading across borders. Also see Table 1 for a cost and time breakdown of exporting and importing from/to Sri Lanka.

Table 1: Time and Cost Breakdown of Exporting/Importing From/To Sri Lanka

| Nature of Export/Import Procedure | Export | | Import | |
|-----------------------------------|------------------|-------------|-----------------|-------------|
| | Duration (hours) | Cost (US\$) | Duration (days) | Cost (US\$) |
| Border compliance | 43 | 366 | 72 | 300 |
| Documentary compliance | 76 | 58 | 58 | 283 |

Source: World Bank (2016), 'Trading Across Borders'.

What is its impact on your business / organisation?

Delays in obtaining test results/certification sometimes results in traders having to pay demurrages.

Need to visit multiple agencies result in additional time and costs, i.e. costs incurred on personnel and transport.

Due to the lack of scanning facilities at the port/airport, traders send their own staff members to unload and load goods. This is an additional cost. Moreover, this result in quality drops especially that of perishables.

Seeking Solutions

Setting up/Strengthening Inquiry Points: Assistance in setting up a single reference point that provides all trade related information including laws, regulations, procedures, tariffs and other useful will be beneficial for trading community. Such a website can give traders access to tariffs, procedures, measures and laws by entering the HS code of any product, and integrate all trade-related information available on individual ministries and agency websites, into an easily accessible and user friendly resource.

While there are enquiry points in different agencies such as the customs, traders express dissatisfaction of their services citing inefficiencies and access issues. While such enquiry points at different institutions could be strengthened, a national enquiry point can function as a coordinating body between the trading community and the relevant regulatory bodies; it can collect requests, direct them to relevant regulatory bodies, compile their responses and inform the requesting party of the responses. Some government agencies also highlighted the need for such an enquiry point because currently inquiries are often directed at the wrong agency as traders are

unaware of the agency which can address the issue.

Assistance in setting up a Single Window and Full Automation of Systems: The need for a single window has been highlighted over the years by the trading community and the Sri Lanka Customs has embarked on setting up a Single Window. Nevertheless, currently only a very few agencies are connected given interalia, the complexity of the project and the need to bring everyone to a common electronic platform which involves high costs and also changes to legislation (i.e. cyber laws to manage risks). Technical and capacity building assistance would be crucial in setting up a Single Window in Sri Lanka.

Building Capacities of Testing Laboratories in the Country: The capacities of testing laboratories such as the Sri Lanka Standards Institute (SLSI) which is the national standards body need to be strengthened so that (i) test reports can be given without undue delays, and (ii) the labs are equipped to issue international certifications. This will reduce the costs incurred by importers (i.e. demurrage costs, opportunity cost of holding products in idle) as a result of delays in obtaining test reports. Furthermore, some of the local labs are not equipped to issue international certifications demanded by buyers for certain products (i.e. coir). In such instances, exporters have to obtain reports from countries as far as USA and Germany. Capacity building in improving the services provided by the national standards body and other laboratories would be beneficial for traders.

Upgrading Infrastructure Facilities such as Scanning, Warehousing Facilities and Cold Rooms: There is a need to acquire necessary scanning devices which will not only facilitate traders but also the country as a whole in promoting the trade of legitimate products and security. It was also mentioned, that the non-availability of these facilities may hinder certain investments which require these to be in place,

to not invest in Sri Lanka. Upgrading of scanning and warehousing facilities will also be helpful in reducing quality drops of products.

Building Capacity of SMEs: In order to make SMEs competitive and successful in export markets they need to be made competitive in the local market. This requires building capacity in a number of areas, i.e. access to technology, supply side capacities. Assistance in building capacity of SMEs is therefore, crucial.



CUTS International, Geneva

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The Trade & Business Connexion project aims at bridging the gap between South and Southeast Asian WTO delegates and their national private sectors. Web: http://www.cuts-geneva.org/Geneva_Connexion_SNSEAsia.html



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