

CUSTOMS ECONOMIC PROCEDURES IN SRI LANKA



T H I L A K A R U M A P P E R U M A A R A C H C H I

Deputy Director of Customs

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Customs Economic Procedures (CEP)

**Embrace
Number of
Customs Relief
Procedures with
economic
impact**



Customs Bonding Scheme



**Temporary Import for Export Processing (TIEP)
Scheme**



Textile & Apparel Industry - INFAC Scheme



Container Freight Stations

CEP PERMITS



Sourcing of inputs without payment of fiscal levies for processing and export of finished/semi finished goods



Sourcing of plant, machinery and equipment for export industries with partial exemption of fiscal levies,



Sourcing of inputs on differed fiscal levies for manufacture and release of the finished products in the local market on payment of applicable levies,



Sourcing of specific commodities for subsequent release in to the local market on payment of fiscal levies.



Sourcing of consumer goods for subsequent release without payment of fiscal levies for eligible persons

ADVANTAGES

Reduced cost of production of the export products

Re-export with value addition

Increased competitiveness in the international market

Exploit the country's potential in international maritime network

Maximizing the opportunities under Preferential Trade Agreements

Connection opportunities to the Global Value Chain

Generation of employment opportunities

Motivation for local industries

Stabilization of local market prices



FOR WHOM?



Direct exporters

- Process and re-export
- Manufacture and export



Indirect exporters

- Manufactures and supply direct exporters



Logistic operators

- Cargo consolidations
- Trade between ports



Manufacturers

- Manufacture and export/sale of finished goods



Traders

- Store for subsequent supply/release of goods under a different scheme

THE BONDING SCHEME

A major scheme to facilitate import of goods without payment of fiscal levies and deposit in a bonded warehouse for a certain period of time until placing them under a different Customs Procedure.

TYPES OF BONDED WAREHOUSES

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graph TD; A[TYPES OF BONDED WAREHOUSES] --> B[State/Public owned]; A --> C[Private owned]; B --> D[SLPA General Bonds]; C --> E[Private Bond]; C --> F[Private General Bond];
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State/Public
owned

SLPA General
Bonds

Private
owned

Private Bond

Private
General Bond

THE BONDING SCHEME INVOLVES

Application to the Director General of Customs

Approval from the Ministry of Finance

Nomination by the Director General of Customs

Deposit of security to cover the revenue liabilities

Operation under the scheme

- **To-Bond Customs declarations**
- **Ex-Bond Customs declarations**
- **Re-Bond Customs declarations**
- **Re-Export Customs declarations**
- **Reconciliation of inputs against output**

Annual verification and renewal



COMMON OPERATIONS UNDER THE BONDING SCHEME

Manufacture in Bond (Apparel, Motor vehicles)

Duty Free Shops

Supply of Ship Stores

Sugar and Rice Bonds

Clearance of Express Cargo Bonds (Courier)

Unaccompanied Personal Baggage (UPB) Bonds

Bunker Trade

*** [125 No. of Bonds Currently in Operation]**

BONDED WAREHOUSE OPERATION

No goods shall be entered until deposit of security

No duty paid goods allowed

Goods shall be properly marked and stowed

Warehouse shall be locked and secured

Opened only in the presence of Customs

Concealed or illegally removed of goods forfeited

No clandestine access to the goods

No destruction of goods

Goods to be cleared within 2 years

...

THE TIEP SCHEME

Temporary Import for Export Processing (TIEP) Scheme, a widely popular system implemented by Customs in collaboration with the Ministry of Industry and Commerce specially facilitating the export and export related industries with simplified and flexible approval and relaxed operational procedures.

TWO SCHEMES IN OPERATION



TIEP-I SCHEME

- Import of raw materials (inputs)
- No fiscal levies
- Processing
- Manufacture
- Direct/Indirect/Deemed Export



TIEP-IV SCHEME

- Import of plant machinery and equipment
- Partial exemption of fiscal levies
- Export > 50% of volume of production

TIEP-I: FISCAL LEVIES

At IMPORT all fiscal levies, except for VAT, are **suspended** and Debited against security deposited in the form of Bank Guarantees or Corporate Bonds to cover the unpaid (suspended) import levies.

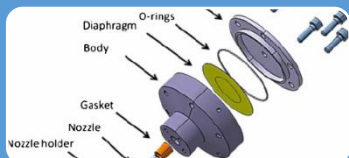
VAT is **deferred** at import for those registered under the VAT Deferred Payment Facility and the same is settled against exports on VAT Credit Vouchers issued by the Department of Inland Revenue.

On proof of EXPORT, Credits are granted on Security replenishing the quantity of inputs again importable under the same.

TIEP-I: PERMITTED INPUTS



Raw-materials, Components and Parts which will be incorporated in the exported product;



Parts for assembly of the product to be exported;



Consumables such as Catalysts, Accelerators, Processing Chemicals, Lab Chemicals, Research Chemicals, and Retarders of chemical reaction to be used in the product to be exported;



Packing material including labels, stickers and tags to be used for packing the export products, raw materials for the manufacture of such packaging material and export catalogues and brochures

TIEP-I: REGISTRATION PROCEDURE

Application to the DDC (Industries & Services)

Details of the production/manufacturing process

Approval from the Development Division of the Ministry of Industry and Commerce (TIEP-I form) on **Conversion Ratio and **Wastage Factor****

Verification by Customs

Registration with a unique Customs Reference Number (Warehouse Code**)**

TIEP-I: TIEP-I FORM

Form stipulated in the Government Extraordinary Gazette No. 1053/11 of 11/11/1998

Can be downloaded from:

<http://www.customs.gov.lk>

<https://Investinceylon.wordpress.com>

TIEP-I: THE APPLICATION FORM

APPLICATION FORM FOR INWARD PROCESSING						
Submit in Triplicates			TIEP 1			
WARNING: There are heavy penalties for making false declarations	Name & Address of Applicant		Date (YY/MM/DD) [][]/[][]/[][]	Approval Number		
			TIN No. [][][][][][][][]	Customs Ref. Number		
	Address of Workshop/Factory		Type of Operation <input type="checkbox"/> Manufacturer cum Exporter <input type="checkbox"/> Manufacturer cum Indirect Exporter			
Name of Address of exporter (to be filled by Indirect exporter use overleaf if necessary)						
EXPORT	Export/Manufactured Product		H.S Number	Unit of Productions	Unit Price FOB	
				Annual Output	Annual Output value(Rs)	
IMPORT	Item No.	Description of import Items	Conversion Ratio	H.S Number	Annual Quantity Kg/Units	
			Total Value per Year			
CERTIFICATE	Approval is hereby granted to operate under the scheme in terms of the terms conditions and the rules governing the scheme. We approve duty free clearance of the above items. Items amended overleaf, subject to conditions governing the scheme. We recommended clearances under <input type="checkbox"/> 100% Bank Guarantee <input type="checkbox"/> 25% Bank & 75% Exporter Guarantee <input type="checkbox"/> Exporter Guarantee Designation Signature Date..... For Director General Of Customs Export Facilitation Unit, 1 st Floor, Sri Lanka Customs, Colombo 11.		1. I/we under signed apply for duty and tax free clearance of above mentioned items and declare that I/we do not operate under any other scheme for duty and tax free clearance of items for the same product. 2. If approval is granted to import the above mentioned item duty free and tax free, I /We agree to abide by the terms and conditions and the Rule governing the scheme. 3. I/We declare that the particulars given herein are true & correct. I/We request clearance on <input type="checkbox"/> 100% Bank Guarantee <input type="checkbox"/> 25% Bank & 75% Exporter Guarantee <input type="checkbox"/> Exporter Guarantee Name of Authorized..... Signature..... Designation..... Signature.....			

Dark Cage for official use only

TIEP-I: DOCUMENTS REQUIRED

Duly completed prescribed form (TIEP-I) in triplicate with MIC approval

Project report

Certificate of VAT Registration

Business Registration Form

Memorandum of Article

Data required for evaluating conversion ratio and wastage factor

Other necessary approvals (Tea Board, Coconut Development Board etc.)

CONVERSION RATIO

Conversion Ratio is to be given for each and every input used in the production of specific output.

This could either be stated as a percentage of each and every input used, or number of units used in the production of one unit of output.

E.g.

To assemble one unit of 26" foot-bicycle requires:

1 no of saddle

1 no of frame

2 no of wheels ...

To produce certain recipe of tea blend might require:

25% of Indian CTC tea

2% of Lemmon flavor in granules

73% of local black tea

TIEP-I: CONVERSION RATIO & WASTAGE FACTOR

WASTAGE FACTOR

Wastage factor is to be given for each and every input used in the production of specific output.

This is usually stated as a constituent percentage of the inputs used..

This figure is only a upper ceiling acceptable at the granting of approval. Applicants are required to claim only the actual wastage in the production process.

E.g.

In the assembly one unit of 26" foot-bicycle requires:

5% saddles

8% of frames

5% of wheels ...

To produce certain recipe of tea blend might require:

1% of Indian CTC tea

1% of Lemmon flavor in granules

TIEP-I: TIEP-I CONDITIONS

- All imports are subject to normal law of the country i.e. import control regulations, payment regulations , plant & animal quarantine regulations...
- Operator is not entitled to process/produce similar product in any other economic scheme (Rule 7)
- Operator shall mark and stack goods for easy identification (Rule 13)
- Operator shall maintain a stock register (Rule 14)
- TIEP operator shall maintain records of production and stocks (Rule 16)
- TIEP operator may obtain supplies from similar other operators on GRN or Ex-Bond CusDec (Rule 17)
- Processing may be subcontracted but the TIEP operator is responsible (Rule 18 & 19)
- All inputs imported required to be re-exported within 6 months from import (Rule 20)
- Proof of export/supply shall be filed with Customs within 30 days from shipment for credit on exports (Rule 25)
- Disposal of waste is subject to Customs ...

TIEP-I: TIEP-I CURRENT INDUSTRIAL SECTORS



Plantation produce Tea, Rubber, & Coconut



Export crops, Spices & Cashew



Printing & Packaging



Gem, Diamonds and jewellery



Confectionary



Apparel accessories



Ornamental fish



Electrical and electronics



Motor vehicle restoration



Toys & educational items

THE TIEP-IV SCHEME

A scheme to support local industries in acquiring capital goods which has direct involvement in the manufacturing process of export goods. Implemented within the provisions of the Section 22A of the Customs Ordinance.

TIEP-IV: PERMITTED INPUTS



Capital goods directly involved in production process

- Machinery, Equipment, Accessories etc.



Intermediate goods essential to the manufacturing process

- Appliances, Devices, Air conditioners, computers generators etc.



Spare parts of plants, machinery & equipment



Transport and handling equipment



Breeding stocks for agricultural projects

TIEP-IV: WHO IS ENTITLED

Those who export (direct/indirect/deemed) over 50% of their total volume of annual production.

TIEP-IV: FISCAL LEVIES

Ports and Airport Levy (PAL) is payable

Nation Building Tax (NBT) is payable

VAT is deferred against Security deposited with Customs

Customs duty is exempted

TIEP-IV: FISCAL LEVIES

CUSTOMS DUTY

Article 13 of List of Exemptions – Schedule A (2017)

Materials and parts for the fabrication of plant, machinery & equipment; Capital and Intermediate goods, and transport equipment, imported for the exclusive use of an industry which exports and/or supplies to direct exporters, 50% or more of its output, under such terms and conditions approved by the Secretary to the Treasury.

TIEP-IV: REGISTRATIN PROCEDURE

Application for Registration with EDB

Application to the DDC (Industries & Services) with the form TIEP-IV

Verification by Customs

Details of the production/manufacturing process and purpose of the imported item(s)

Proof of registration under SVAT scheme for VAT deferment

TIEP-IV: THE APPLICATION FORM

Dark Cages for Official Use Only

The terms and Conditions governing the scheme can be obtained from Export Facilitation unit.
Sri Lanka Customs

TIEP-IV: CONDITIONS

Goods shall be used only for the purpose for which they were permitted under the scheme

Goods shall not be sold or disposed without the permission of the Director General of Customs

Duly filled TIEP-V application shall be filed upon completion of one year from import, with auditors certificate on the production & export performance

Disposal of Spent or waste items are subject to Customs ...

TIEP-V: THE APPLICATION FORM

Submit in Triplicate		APPLICATION FOR RELEASE OF GUARANTEES		FORM-TIEP 5		
	Name and address of Applicant Tel no:		Date		Application For Year Ending	
			Year	Month	Date	TIEP Approval Number
			Tin		Date of Approval	
Address of workshop / Factory		Type <input type="checkbox"/> Exporter <input type="checkbox"/> Bank Guarantee <input type="checkbox"/> Indirect Exporter <input type="checkbox"/> Exporter Guarantee				
If there was a short fall Exports state reason		Bank/Exporter Guarantee to be released No of Bank of No of Bank of No of Bank of No of Bank of				
Export	Export Product		Production Volume		Production Value	
			Export Volume	%	Export Value	%
Imports	Items Imported		Quantity		CIF Value	
	Date of Import	Date Of Commencement Of Production	Total Value Of Imports			
AUDITORS CERTIFICATE We certify that the information given above by the Exporter is true and correct according to documents furnished to us by Exporter. Name and address Signature Seal Date			The undersigned apply for release of the above Guarantee/s and declare that the ownership of items imported has not changed and that all particulars given above are true and correct. Name of Authorised Signatory:			
Recommend the charge of <input type="checkbox"/> Bank <input type="checkbox"/> Personal Guarantees issued in this connection/Extension of the Guarantee by a period ofmonths. PTO for information /letter of request Designation Signature Date Export Facilitation Unit Sri Lanka Customs Bristol Street Colombo 01			Designation Signature			

THE INFAC SCHEME

Implementation of import duty concessions announced in the Budget speech for 1998 (Gazette Extraordinary No. 1000/11 of 05/11/1997) by the Ministry of Industrial Development for the facilitation of textile and garment industry

THE INFAC SCHEME

Provides import duty concessions for

Project related machinery, equipment, parts

Inputs including raw materials and accessories

Packaging materials

Subject to conditions laid down by the Secretary to the Treasury

THE INFAC SCHEME : FOR WHOM

Registered Manufacturers cum Exporters

Registered exporters who uses imports to manufactures for export by a registered manufacturer

Registered textile fabric/yarn/thread manufacturers/processors

Providers of services such as washing plants, embroidery services, screen printing

A Manufacturer in the Scheme is not entitled to operate under Customs Duty Rebate, Manufacture-in-Bond or any other such scheme in respect of an identical product

THE INFAC SCHEME : APPLICATION PROCEDURE

Application to the Director General of Customs

Project Report

Business Registration Certificate

TIN & VAT Certificates from the IRD

EDB Registration Certificate

NIC & Passports of Signatory holders of CDP-1

Project approval from the SME & Apparel Export Division of the Ministry of Industry and Commerce, with warehouse code

Application for registration under Customs Deferred Payment (CDP-1) – in triplicate {VAT Act No. 14 of 2002}

Power of Attorney (CDP-2) – in duplicate

Company Guarantee (CDP-3) – (value > VAT for 6 month imports)

THE INFAC SCHEME : MIC CONDITIONS OF APPROVAL

Confinement to the approved product

Subject to approval from CEA

Machinery to be new and modern

Agreed annual production capacity

Effective steps to use local materials

All records on import/export to be maintained

Summary of Export Declarations to MIC every month

Subcontracting allowed with other INFAC/BOI operators

Transfers on GRN

Local disposal of rejects on approval of MIC and duty payable

Progress report to MIC whenever required

THE ENTREPÔT SCHEME

Provides for the import of goods and re-export to a third party with or without value addition without involvement of fiscal levies in Sri Lanka

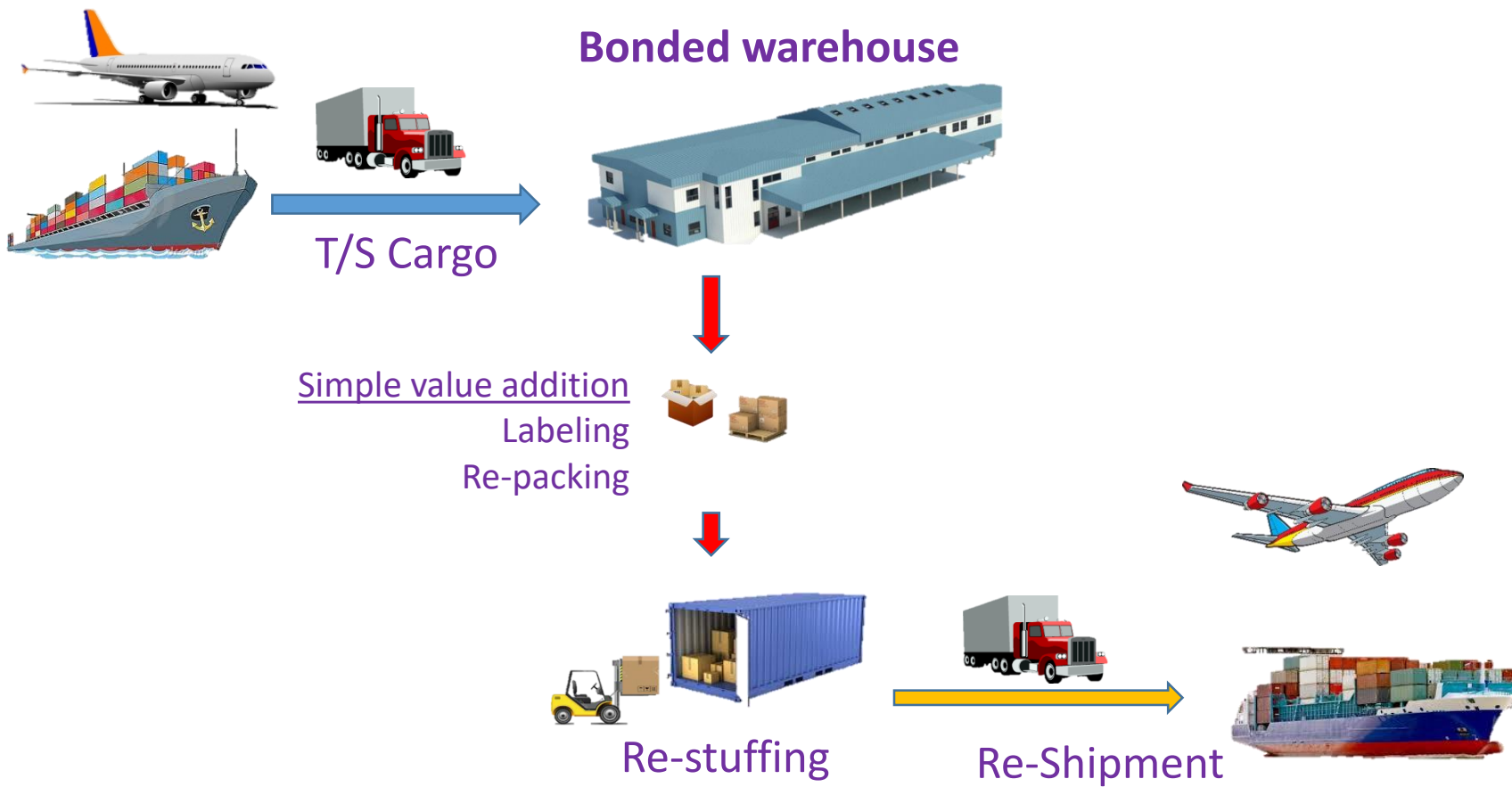
An important enabler of Commercial Hub Ports

AN ENTREPÔT

An entrepôt (French for "warehouse") or transshipment port is a port, city, or trading post where merchandise may be imported, stored or traded, usually to be exported again. These commercial cities spawned due the growth of long-distance trade. (www.wikipedia.org)

A port, city, or other centre to which goods are brought for import and export, and for collection and distribution. (www.dictionary.com)

THE ENTREPÔT TRADE



THE ENTREPÔT SCHEME : ADVANTAGES

No import control license *

Re-Export of goods '**as imported**' with or without (Budget 2017)
value addition (No change of HS code)

Meet buyers requirements by way of simple processing such as
re-packing, labeling

Exploit the country's strategic location in the maritime network

THE ENTREPÔT TERMS & CONDITIONS

IMPORT

Exchange control regulations are applicable

Quarantine regulations are applicable

Actual country of origin shall be declared

RE-EXPORT

Exchange control regulations are applicable

Re-Export under DA not permitted

Re-Export FOB > Import CIF *

Country of Origin Shall not be changed

** Budget 2017 – Paragraph No. 214. “At the same time, exports and imports related to Entrepot Trade will be allowed on No Foreign Exchange (NFP) terms, on establishment that logistic handling charges have been paid.”*

THE ENTREPÔT SCHEME: PROHIBITIONS & RESTRICTIONS

PROHIBITED

Narcotics

Arms and ammunition

Goods prohibited under international conventions

RESTRICTED

Re-export of Spices, Textile and clothing to countries under preferential trading agreements

THE ENTREPÔT SCHEME: WAREHOUSING OF GOODS

Public Bonded Warehouses of SLPA (CFS3/CFS5)

Private Bonded Warehouse

Transfer from inward to outward ship/aircraft is allowed under Customs supervision without warehousing

THE ENTREPÔT SCHEME: SECURITIES & LIABILITIES

MOVEMENT OF GOODS WITHIN THE PORT

No security is required

No Customs supervision

MOVEMENT OF GOODS FROM PORT TO BOND

Bank/Corporate Guarantee to cover liabilities

Under Customs Supervision

MOVEMENT OF GOODS FROM PORT TO PORT

No security is required

No warehousing of goods

Under Customs Supervision

THE ENTREPÔT SCHEME: APPLICATION PROCEDURE

Approval must be obtained case by case

A letter of application to Director of Customs (Industries and Services) for approval

Import and Export vessel Names

Bill of lading number

Description and quantity of goods

Import commercial invoice number and the date

Import value of the goods with terms of delivery (CIF)

Destination of re-export

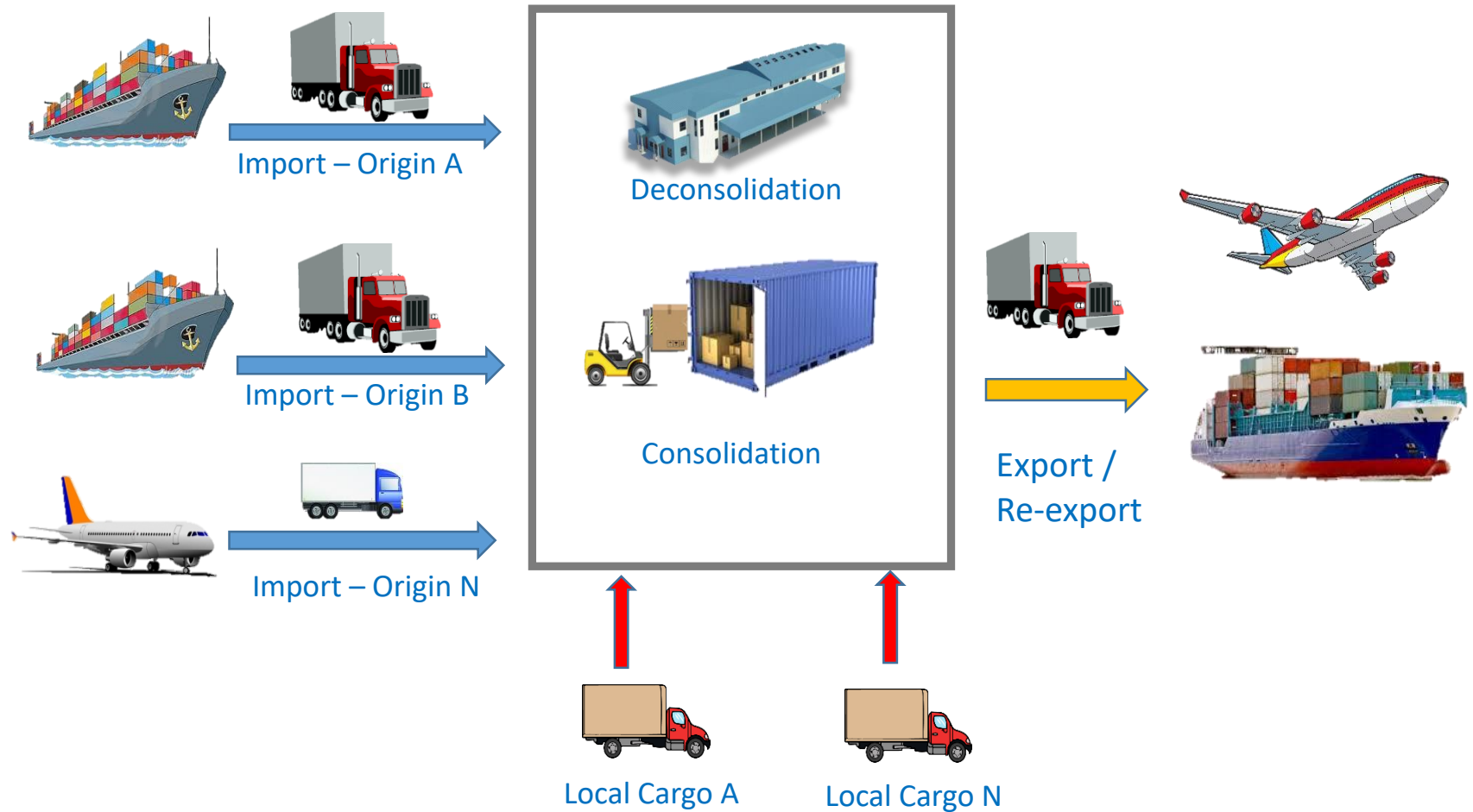
Re-export value of the goods with terms of delivery and the gain

Undertaking to re-export within the granted period

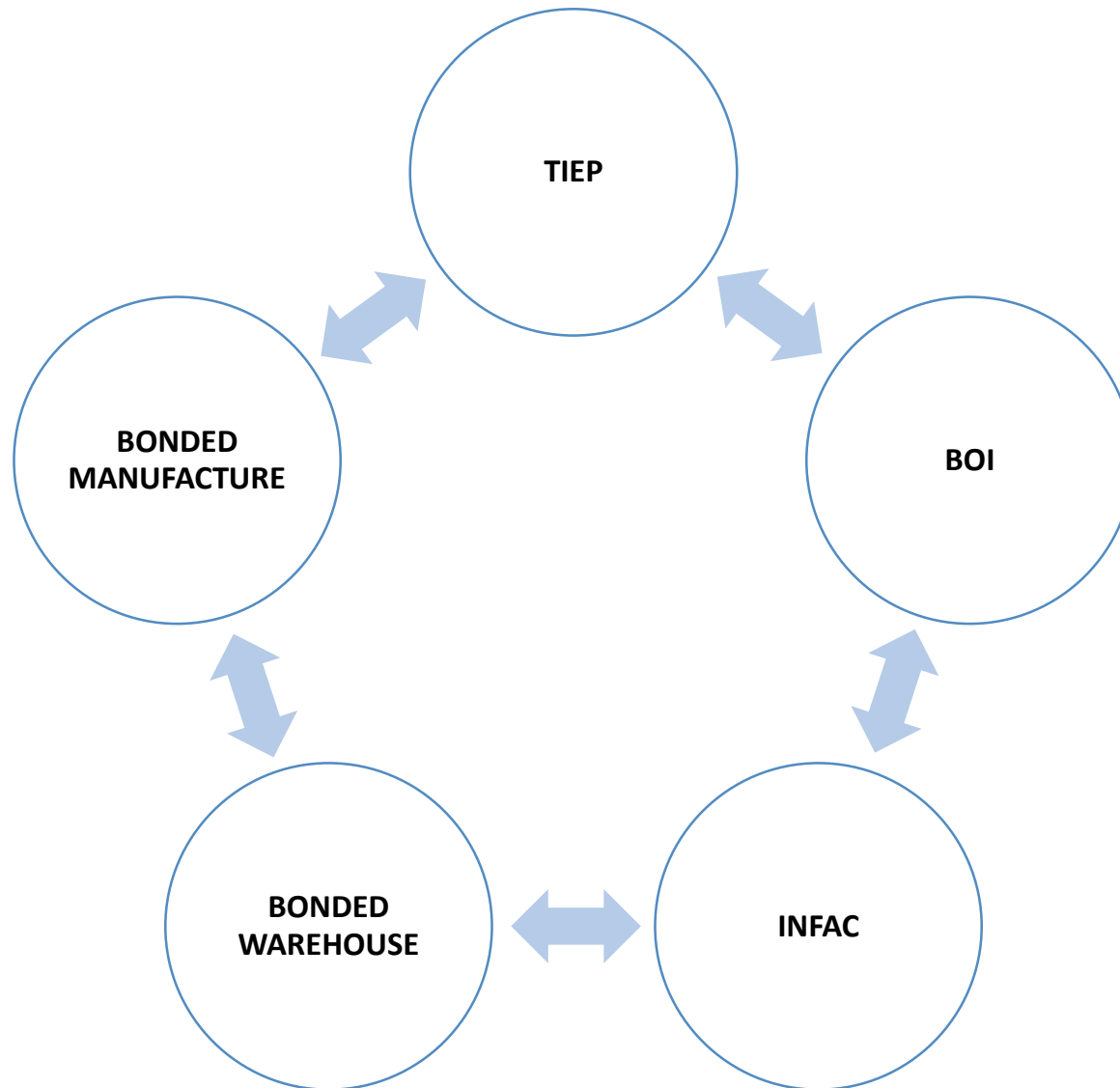
The warehouse code 7301142/7301127 for CFS3/CFS5 is linked to the TIN of the applicant for a period of one month

This facilitates the processing of CusDec for depositing goods at CFS3/CFS5

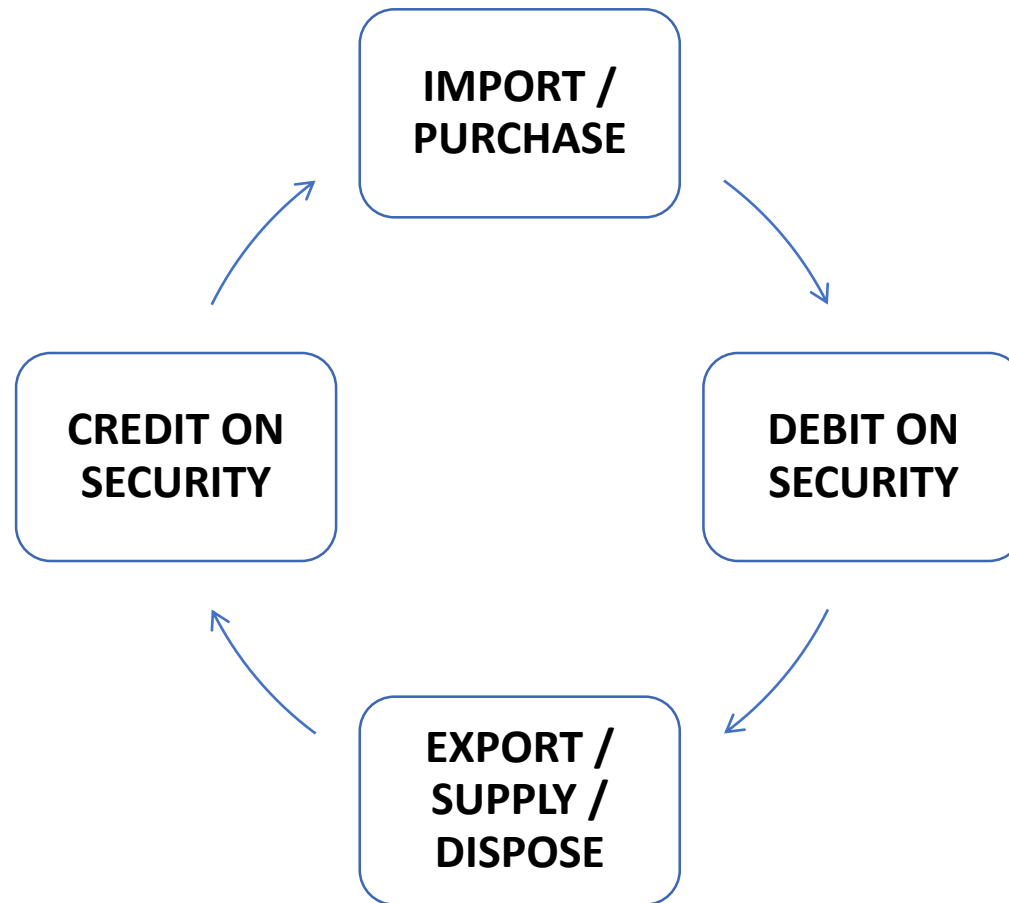
MULTI COUNTRY CONSOLIDATION



CEP – INTEROPERABILITY



CEP – OPERATION IN GENERAL



CEP – OPERATION IN GENERAL: IMPORT/PURCHASE

IMPORT - Import Customs Declaration

Importer's VAT number

**Customs Procedure
Code**

7700 TRU – TIEP-1 raw materials VAT paid upfront

7700 TRD – TIEP-1 raw materials VAT deferred

7300 000 – Entrepot scheme normal procedure

**Importer's Warehouse
Code (Customs
Reference Number)**

57xxxxx - Warehouse code assigned to the importer

7301142 - SLPA CFS3 Warehouse

CEP – OPERATION IN GENERAL: IMPORT/PURCHASE

PURCHASE - GRN Customs Declaration

Supplier's VAT number

Purchase's VAT number

Customs Procedure Code

7777 TRD – Transfer between TIEP VAT deferred

7778 TRD – Transfer to TIEP from BOI VAT deferred

Purchase's warehouse Code (Customs Reference Number)

CEP – OPERATION IN GENERAL: DEBIT ON SECURITY



At the making of IMPORT/GRN Customs declaration:



Revenue liabilities are debited against the security deposited, if insufficient, declaration is rejected



All the inputs are placed under the account of the importer/purchaser (warehouse code)



Issuance of Debit Note

CEP – OPERATION IN GENERAL: EXPORT/SUPPLY

EXPORT - Export Customs Declaration

Exporter's VAT number

Customs Procedure Code 3277 T1E – Export under TIEP-1 scheme

3273 100 – Re-Export under Entrepot scheme

Exporter's Warehouse
Code (Customs
Reference Number) 57xxxxx - Warehouse code assigned to the importer

7301142 - SLPA CFS3 Warehouse

CEP – OPERATION IN GENERAL: EXPORT/SUPPLY

SUPPLY – Goods Receive Note Declaration

Supplier's VAT Number

Supplier's Warehouse Code (Customs Reference Number

Purchaser's VAT Number

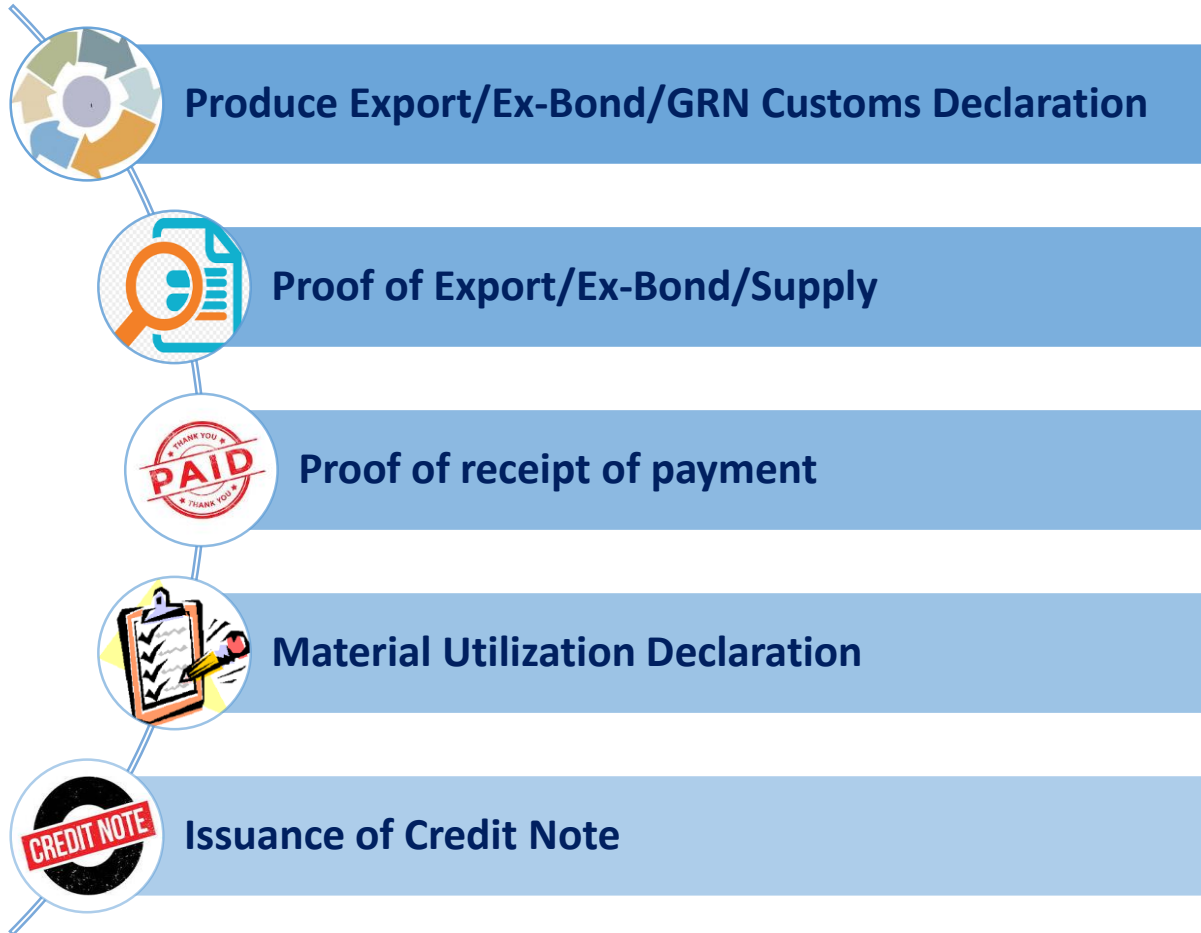
Purchaser's Warehouse Code (Customs Reference Number)

Description, Quantity, and Value of the goods

Purchaser's confirmation of the receipt of the goods in order

Date & time of the receipt of the goods

CEP – OPERATION IN GENERAL: CREDIT ON SECURITY



PREFERENTIAL TRADE AGREEMENTS

Certificate of Origin

**Substantial
Transformation**

Value addition

Export License

Value Addition

CONTACTS

Bonded Warehousing/Manufacture	<ul style="list-style-type: none">• Project Unit, Industries & Services Directorate
TIEP Scheme	<ul style="list-style-type: none">• Export Facilitation Unit, Industries & Services Directorate
INFAC Scheme	<ul style="list-style-type: none">• INFAC Unit, Industries & Services Directorate
Entrepôt Trade	<ul style="list-style-type: none">• Monitoring Unit, Industries & Services Directorate
Container Freight Stations	<ul style="list-style-type: none">• Export Directorate• Project Unit, Industries & Services Directorate

Sri Lanka Customs,

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