IMPLEMENTATION OF WCO CROSS-BORDER E-COMMERCE FRAMEWORK OF STANDARDS IN SRI LANKA

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SRI LANKA’S INTERNET USAGE FACTORS

- Total Population: 20.98 Million
  - Urbanisation: 19%
  - vs. Population: 137%

- Mobile Subscriptions: 28.71 Million

- Internet Users: 7.13 Million
  - Penetration: 34%

- Active Social Media Users: 6.20 Million
  - Penetration: 30%

- Mobile Social Media Users: 5.70 Million
  - Penetration: 27%
SRI LANKA’S FINANCIAL INCLUSION FACTORS

- Has an account with a financial institution: 74%
- Has a credit card: 5.3%
- Has a mobile money account: 2.4%
- Makes online purchases and/or pays bills online: 6.2%

Percentage of women with a credit card: 3.8%
Percentage of men with a credit card: 7.2%
Percentage of women making online transactions: 4.4%
Percentage of men making online transactions: 8.3%
IMPLEMENTATION OF WCO CROSS-BORDER E-COMMERCE FRAMEWORK OF STANDARDS IN SRI LANKA - CURRENT SITUATION, PROBLEMS FACING IN CURRENT SYSTEM, REMEDIES.

- Current Situation
- Current Practices
- Disadvantages
  - Difficulties in implementing WCO CBECFS in Sri Lanka
- Consequences
- Solutions
A qualitative approach was used in analysing data.
Huge growth in cross-border e-commerce in the last one and half decades.

- Electronic Transactions Act, No.19 in 2006 removed the legal barriers and ensured legal certainty both within Sri Lanka and internationally.
- Huge internet penetration.
- Growth of smartphones accessibility.
- Growing middle class.
- Sri Lanka has seen the e-commerce segment expand with a growth of 34% for year on year, as at July 2018 - VISA
CHALLENGE FOR SRI LANKA CUSTOMS

• The rapid growth of e-Commerce, saw a number of new challenges for Sri Lanka Customs as well as vendors and intermediaries.

• Sri Lanka Customs has to do a lot of groundwork to implement all the standards mentioned in the WCO framework.
SRI LANKA CUSTOMS: MAIN AREAS OF CONCERN

• Collection of Revenue
• Social Protection
• Enforcement of Law
• Facilitation of Legitimate Tarde
PRESENT MODES OF OPERATION IN E-COMMERCE PACKAGES CLEARANCE BY SRI LANKA CUSTOMS

BY POST

- Normal Post
- EMS (Express Mailing Service)

All are Government Owned

BY AN INTERNATIONAL COURIER SERVICE

- DHL, UPS, Aramex, FedEx, TNT etc..

Private Sector

W.A.T. Perera
Sri Lanka Customs
CLEARANCE PROCESS IN POSTAL SERVICE

• Everyday around **4000 parcels** are received to the Central Mail Exchange of Postal Department in Colombo.

• Including e-commerce packages and other personal packages.

• The packages are put in to a manual screening method.

• Customs officers select packages randomly to detain.

• The **size of the package, the outer look, shape and the description on the package** are usual risk criteria taken in to consideration.

• Selected packages are detained and the other packages are released as low risk packages.

• The consumer has to come to his nearest post office where Customs clearance can be done. **Customs are operating in Colombo, Kandy, Galle, Trincomalee and Jaffna post offices.**
Packages Received Daily to the Central Mail Exchange by Air Cargo

Packages are Put in to a Manual Screening by Customs Officers (Around 4000 Packages Received Daily)

Packages Delivered to Customers Doorstep

Packages Identified as Low Risk are Released

Selected Packages are Detained and the Customers are Noticed to be Present at the Post Office to Open the Package

Customs Officers Open the Package in Front of the Consumer.

Prohibited Items are Forfeited

For Restricted Items Consumers are Requested to Obtain Relevant Licence or Permit

If the Item is Taxable, the Due Taxes and Duties are Collected and the Package is Released to the Consumer (the values and other conditions are decided by a Customs Appraiser)

Figure: Customs Operates in Specific Post Offices in Sri Lanka

W.A.T. Perera Sri Lanka Customs
CLEARANCE PROCESS IN COURIER SERVICE

• Courier service points are located near the airport (Katunayake).

• The daily arrival of packages includes around 25% of e-commerce packages and other personal / business packages.

• The packages are detained with regard to the airwaybill details pre-submitted to Customs.

• If necessary, the packages are put in to a manual inspection. Scanner machines are available for non-intrusive inspection.

• All the items are subject to tax, (as per the new DOPL 1351, importers can pre submit a declaration to gain *diminimis* benefit) the amount is payed online by the courier service.

• The courier service pays the taxes on behalf of the consumer and the package is delivered to the door step of the consumer. The paid duty is collected by the consumer by the courier service on delivering the package.
Figure: Customs clearance process in Postal Service

1. **Packages Received Daily to the Courier Service Points by Air Cargo**
2. **Packages are Appraised. Subjected to Inspections and Scans. Applied Duty is Paid Online by DHL on Behalf of the Consumer.**
3. **Selected Packages are Detained and the Customers are Notified to be Present at the Courier Service Point to Open the Package.**
4. **Customs Officers Open the Package in Front of the Consumer.**
5. **Package Delivered to Doorstep and Due Taxes are Collected from the Customer.**
6. **If the Item is Taxable, the Due Taxes and Duties are Collected and the Package is Released to the Consumer (the values and other conditions are decided by a Customs Appraiser).**
7. **For Restricted Items, Consumers are Requested to Obtain Relevant License or Permit.**

W.A.T. Perera
Sri Lanka Customs
Current Measures Taken

• The only occasion where advance electronic data applied is, in courier services where the airwaybill details are provided to Customs.

• Mostly e-commerce parcels arrive in normal post, which is the cheapest way of sending a package to Sri Lanka. In postal service, no advance data is collected by Customs.

• In postal service, the risk management measures taken are very primal measures. Packages are screened and detained manually. Following risk management criteria are used:
  
  ▪ Assessing risk based on the export country
  ▪ Size/weight of the parcel
  ▪ Information on the label of the parcel

• Only a few randomly selected parcels are detained for Customs inspection. Non-intrusive methods are not used. No advance data is collected by Customs.
Disadvantages in the Current System of Postal Service

- Not all the packages are examined.
- Customs officers have to put more effort.
- Consumers are unaware about the duties/ restrictions they have to pay, when they purchase goods online.
- Restricted or prohibited items may cleared without Customs inspection.
- Customers have to visit the post offices and wait in queues to pay the duties.
- Difficult to determine the valuation.
- Sometimes, items that do not have any social threat or that does not exceed the *di minimis* threshold are also detained and the customers have to come to the post office for Customs clearance.

Courier Services

- In courier services, the package details are received from the airwaybills before the arrival of packages.
- So, the high-risk cargo is identified in advance.
- All the packages are declared to Customs by submitting Cusdecfs to ASYCUDA.
- Post audits and analysis are possible.
- Scanners are also available.
- Customs officers scan suspicious packages if needed.
- But still no data is collected from vendors.
FACILITATION AND SIMPLIFICATION (WCO CBECFS STANDARDS - 5, 6)

Measures Taken at Present

Postal Service:

• Simplified clearing procedures and facilitation measures has to be adopted by the postal service.
• No advance data is collected. So, pre arrival processing and risk assessment is not practiced.
• Low risk cargo is released. For detained packages, consumers are requested to be present at the post offices to clear the goods from Customs.
• Payments are done manually.

Courier Services:

• Facilitation and simplification are comparably satisfying in courier services
• Consumer can pay the Customs duties on receiving the package in his door step.
• Detained packages subjected to examine by Customs in the presence of consignee.
• Courier Services act as AEOs (Authorized Economic Operators).
• Airwaybill and air cargo manifest information is received in advance.
• Comparing the both services MSMEs and Large scale enterprises both rely on the courier services.
FACILITATION AND SIMPLIFICATION (WCO CBECFS STANDARDS - 5, 6)

Disadvantages in the Current System

Postal Service:

- Manual screening system; low risk cargo can also be detained on suspicion.
- Online payment methods are not introduced.
- Lack of awareness of the regulations by the consumer.
- Few locations are accessed to the consumers.
- Communication between authorities and the consumers are not effective.
- Non-intrusive inspection methods not introduced yet.

Courier Service:

- Online payment methods are not introduced.
- Courier locations are situated with inconvenient to the consumers.
FAIR AND EFFICIENT REVENUE COLLECTION (WCO CBECFS STANDARDS – 7, 8)

Current Measures Taken
• Due revenue is not collected efficiently and fairly.
• Two different methods are applied in collection of revenue by postal and courier.

Postal Service:
• Detention is done randomly.
• Not all the packages are inspected for revenue collection.
• “Di minimis” threshold is applied.
• Collection of duty is at the post office.
• Online payments are not in practice, alternative collection models are not applied.
• No post clearance audit by the Customs.

Courier Services:
• Up front payment of duty is made as per intermediary collection model.
• No online payment methods practiced.
FAIR AND EFFICIENT REVENUE COLLECTION (WCO CBECFS STANDARDS – 7, 8)

Di Minimis Threshold in Sri Lanka:

<table>
<thead>
<tr>
<th>Type of Goods</th>
<th>Value Range</th>
<th>Rate of Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal</td>
<td>Up to 15,000/-</td>
<td>CID Exempted</td>
</tr>
<tr>
<td>Personal</td>
<td>Up to 10,000/-</td>
<td>VAT Exempted</td>
</tr>
<tr>
<td>Business Samples</td>
<td>Up to 50,000/-</td>
<td>CID Exempted</td>
</tr>
<tr>
<td>Business Samples</td>
<td>Up to 10,000/-</td>
<td>VAT Exempted</td>
</tr>
</tbody>
</table>

(Other duties are applied. Ex: PAL, NBT, CESS, Excise)

DOPL 1351

- Newly introduced in 2019 July to give the di minimis benefit to for the consumers.
- Consumers have to get a TIN number (Tax Identification Number) first.
- Pre-arrival declaration by a Cusdec.
- Lack of interest by individual e-commerce consumers.
- Any item which was not declared in advance will not get the di minimis benefit.
Disadvantages in the Current System

Postal Service:

- Extra effort put by the Customs officers to collect revenue.
- Revenue Leakages.
- Different treatment to different consumers.
- Valuation of goods is difficult.
- No post clearance audits.
- No electronic payment methods practiced.
- No alternative collection models are applied.

Courier Service:

- Di minimis is not applied effectively on e-commerce consumers.
- No online duty payment methods introduced yet.
SAFETY AND SECURITY (WCO CBECFS STANDARDS - 9, 10)

Current Measures Taken

- Sri Lanka Customs Biodiversity, Cultural and National Heritage Protection (BCNP) Branch monitors e-commerce exports and Sri Lanka Customs Narcotics Control Unit in collaboration with Sri Lanka Police monitors drug trafficking through e-commerce shipments.
- But there is no proper platform to share intelligence with other e-commerce stakeholders to detect illicit and non-complaint goods.
- Importing prohibited items is punishable by law (Schedule B of Customs Ordinance Chapter 235).

Disadvantages in the Current System

Postal Service:

- No method to identify high risk shipments in advance.
- Restricted or Prohibited items can be released without inspection which are subject to social protection concerns.
- Non-intrusive inspection methods are not used to identify illegal imports.

Courier Service:

- Lack of collaboration with other government agencies to prevent fraud and illicit trade.
PARTNERSHIPS (WCO CBECFS STANDARDS - 11, 12)

Current Measures Taken

• In the present cross-border e-commerce clearance modes, international cooperation in order to build better compliance and facilitation is yet to implement.
• There are no established partnerships with e-commerce stakeholders.
• Sri Lanka Customs in cooperation with private sector intermediaries like courier services, has been able to provide a satisfactory improvement in building up compliance and facilitation.
CURRENT MEASURES TAKEN

• Lack of public awareness programs and trainings.
• So far, the measures taken only include the web presence of information on online buying.
  
  www.customs.gov.lk -> home -> Personal -> Online Buyers

• Post Department, DHL, UPS, Aramex, TNT and Fedex have published relevant information in their websites as well.

DISADVANTAGES

• People who have less knowledge about online buying falls in to traps of online scammers.
• Some people import goods from online sites without knowing about their actual duties and license requirements.
Current Measures Taken

• No measurement or analysis done on cross-border e-commerce statistics in Sri Lanka.
• One of the main barriers to do an analysis is in post offices where most of the e-commerce goods arrive, has no automation process to collect data of the parcels released daily.
• In Postal Service, all the process is done manually and a daily cash book report is uploaded in to ASYCUDA system as a daily summary report.
• In courier services, all import goods are declared to Customs from ASYCUDA system, But there hasn’t been any analysis primarily done on the field of e-commerce yet.
LEVERAGING TRANSFORMATIVE TECHNOLOGIES (WCO CBECFS STANDARD 15)

Current Measures Taken

• No measures taken to explore technological developments and innovation on cross-border e-commerce.
• Courier services are rapidly improving with the new technological advancements. Their business is mainly depending on fast clearance of parcels.
• Their improvements have mutually benefitted for Customs, intermediaries and consumers.
• The government has to focus more on exploring technological developments and consider on contributing more for the facilitation and efficient control of cross-border e-commerce.
BARRIERS IN IMPLEMENTING THE WCO CROSS-BORDER E-COMMERCE FRAMEWORK OF STANDARDS IN SRI LANKA

• Customs is technically ready. Yet it’s a huge opportunity cost to implement the standards.
• Main reason: Sri Lankan economy does not depend much on e-commerce trade yet.
• It is still an individual consumer’s market place.
• The local export trade has a very small share in the world e-commerce sector.
• At present only 0.4% of Sri Lanka’s total annual retail sales (US $ 10 billion) is in e-commerce. This value is calculated from both the export and domestic e-commerce sale.
• So, the government does not intend to invest yet on making policies for such a small market. Hence the facilitation may only boost the imports yet not exports.
• Legal barriers on importing e-commerce goods in commercial quantities.
The total revenue collection from selected Postal Services and Courier Services in some specific periods are mentioned below.

<table>
<thead>
<tr>
<th></th>
<th>Colombo Post Office</th>
<th>Kandy Post Office</th>
<th>DHL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>March</strong></td>
<td>2,374,039</td>
<td>259,195</td>
<td>150,115,441</td>
</tr>
<tr>
<td><strong>April</strong></td>
<td>3,137,539</td>
<td>205,003</td>
<td>112,259,321</td>
</tr>
<tr>
<td><strong>May</strong></td>
<td>3,651,310</td>
<td>205,864</td>
<td>152,685,289</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>9,162,888</td>
<td>670,062</td>
<td>415,060,051</td>
</tr>
</tbody>
</table>

Overall revenue collected from Colombo, Kandy post offices and DHL in March to May 2019 (All amounts are in Sri Lankan Rupees, 1 USD = 182 SLR)
PRACTICAL IMPLICATIONS

• Facilitating MSMEs by allowing them to bring pre-declared commercial quantities via Normal Post.
• Facilitating local E-Commerce Exports
• Introducing advance data collection models to efficient revenue collection.
RESEARCH LIMITATIONS

• No specific data collected on e-commerce imports/exports.
• Post offices are not automated yet.
• Sample was taken from Colombo Central Mail Exchange, Kandy Post Office and DHL only (90% of e-commerce goods arrive in these three places).
The findings in this research are equally important for other developing countries as like Sri Lanka.

It’s is arguable whether how many of the developed countries like Sri Lanka have already applied the WCO Cross-Border E-Commerce Framework of Standards in their countries.

The giants in the E-Commerce trade of the world like China, USA and EU are benefitting far more from e-commerce than the developing countries.

So, will the developing countries really put an effort to implement these standards in their countries?

How good will it effect on their local industries?

Does the WCO Cross-Border E-Commerce Framework of Standards satisfy the needs of developing countries?
THANK YOU!

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